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Police, Moslems in Jerusalem Clash Over Jewish Pilgrimage

Glenn Frankel

Washington Post Service

JERUSALEM — Arabs clashed with the police atop the Temple Mount on Sunday morning, causing hundreds of Jewish worshippers and tourists to flee from the nearby Western Wall.

The trouble began when hundreds of Palestinian demonstrators sought to block entry to the religious area to ultraorthodox Jewish nationalists who had come to pray at the site, which contains two Islamic mosques and is sacred to both Moslems and Jews.

Policemen escorting the Jewish pilgrimage fired tear gas canisters and shot in the air to disperse the rock-throwing crowd.

The tear gas wafted over the Western Wall, Judaism's holiest site, which is just below the mosques. Hundreds of Jewish worshippers there to celebrate the autumnal festival of Sukkot were forced to flee, some of them shouting in panic.

Meanwhile, a young Jewish man who was shot in the head Saturday night in Jerusalem's Old City in a separate incident died of his

wounds. And the Israeli-occupied Gaza Strip, where four Palestinians and an Israeli internal security agent were killed in a gun battle last week, erupted in rioting for a fifth straight day.

The Temple Mount, in the southwest corner of the Old City, is reportedly both the site of King Solomon's temple and the spot from which the Islamic prophet Muhammad ascended to heaven.

Since Israel occupied and annexed Arab East Jerusalem following the 1967 Six-Day War, it has remained under administrative control of the Waqf, an Islamic institution that has barred non-Moslems from prayer.

The arrangement has come under increasing fire from rightist Jewish activists, who have pressed for Israeli rule over the area.

The Temple Mount Faithful, a small group of activists, announced in advance that it had received permission to visit the site Sunday morning and that it would hold a Jewish prayer service there. The police denied that Jewish prayers would be allowed, but the announcement led Moslem activists to organize a protest.

A police spokesman said the Palestinians had refused orders to disperse and that the police had then acted. About a dozen Arabs were arrested.

"On the one hand I'm satisfied," Gershon Solomon, leader of the Jewish group, said afterward. "I feel proud today that the Israeli police and the Israeli Defense Force proved that Israeli sovereignty applies on the Temple Mount. On the other hand it pains me that we have got to the point where a large force has to be brought up to prevent Arabs from running wild. And about what? About Jews going up to the Temple Mount."

Arab officials at the site said nearly 50 Palestinians were taken to hospitals suffering from tear gas inhalation.

There were further disturbances Sunday in the Gaza Strip, where troops shot and wounded at least seven Palestinian demonstrators in severe clashes on Saturday.

A military spokesman said a gasoline bomb had been thrown at an army patrol in the city of Gaza but had not exploded and that demonstrators had burned tires and thrown stones at soldiers.

All stores in the main streets were closed in a strike to protest the killing by soldiers of four armed Palestinians last week.

Iran skillfully exploits these fears in diplomatic contacts with Arab leaders, according to Arab sources, while the administration of Presi-



Moslems carrying away a fellow protester who was overcome by tear gas Sunday on the Temple Mount in Jerusalem. The Associated Press

Candidate's Declaration Divides Seoul Opposition

By Clyde Haberman

New York Times Service

SONGNAM, South Korea — Kim Dae Jung, South Korea's most prominent opposition figure, left little doubt at a public rally here Sunday that he was running for president, following an announcement by his chief rival, Kim Young Sam, that he has entered the race.

Although Kim Dae Jung stopped short of declaring his candidacy, he is considered likely to follow with an official declaration of his own later this week, barring a reversal that seemed hard to imagine after his statements Sunday.

"The great majority of the people will want me to run," Kim Dae Jung said, in his clearest indication that he would be a candidate. "I am the one who is needed today."

On Saturday, Kim Young Sam, announced his presidential candidacy, saying he was tired of weeks of fruitless wrangling and that it was time for action.

Kim Dae Jung's remarks before tens of thousands of supporters capped a troubled weekend for South Korea's political opposition, as it suffered a severe split despite previous promises to stand united against a government that it decries as a military dictatorship. For weeks, South Koreans have been riveted by the growing rivalry between the two Kims and their obvious inability, despite frequent pledges of allegiance, to set aside old rivalries and long-frustrated ambitions to become president.



Kim Dae Jung speaking at a rally Sunday near Seoul.

Many of their supporters have been openly dismayed by the split, believing that only a united opposition led by a single candidate could guarantee victory against the ruling party in elections expected in mid-December.

Acknowledging that he, too, was concerned, Kim Dae Jung told the crowd Sunday that the ultimate goal was to defeat not Kim Young Sam but the government party and its candidate, Roh Tae Woo. He suggested, moreover, that it was conceivable that either he or the other Kim might ultimately drop out of the race if it looked like victory was beyond reach.

Kim Young Sam and I will cooperate in the face of military dictatorship, he said. "At the last minute, if it is needed to defeat the military dictatorship, we will make whatever sacrifice is necessary to make sure that the ruling party cannot win."

Echoing charges made the day before by Kim Young Sam, Kim Dae Jung accused the government party of having tried to buy votes by handing out gifts during a long holiday season that ended Sunday. It was the first clear signal that the opposition would charge fraud should it lose to Mr. Roh in December.

This working-class city, 15 miles (24 kilometers) south of Seoul, is a natural constituency for Kim Dae Jung, and an enthusiastic crowd filled an open field to hear him.

See KOREA, Page 5

Japanese Are Returning to Cutting Edge of Physics

By Walter Sullivan

New York Times Service

TSUKUBA, Japan — A new particle accelerator, causing electrons and protons to collide at energies higher than those of any other such laboratory, is restoring Japan's prewar position near the front rank of experimental physics.

Scientists at KEK, Japan's National Laboratory for High Energy Physics, are using the machine, the Tristan, in an effort to create elemental particles of matter. To do this, they are using the positively charged twin of the electron, called the top quark.

The device is a part of Japan's increasing emphasis on basic research; its operators hope it will continue to be productive long after more powerful machines are in operation.

The achievement the Japanese are probably seeking most is creation of the elusive

top quark, one of the hypothetical basic particles from which other subatomic particles are believed to be formed.

To date five quarks, including those assumed to be building blocks of the protons and neutrons in all atomic nuclei, have been observed.

They occur in three families, those with the least mass being the two quark types of which protons and neutrons are made. In addition to another two in the intermediate-mass range, one member of the pair with the greatest mass, the bottom quark, has been observed, but not the other, the top quark.

The quarks with higher mass combine to form short-lived particles normally observed only when produced in high-energy collisions.

If all efforts to produce the top quark fail, it will mean that there may be something wrong with current theories about

the nature of matter, according to Satoshi Ozaki, director of the Tristan project.

Particles like the heavier quarks do not occur in the everyday world. They can only be created, and very briefly, in the fireball produced by very-high-energy collisions of subatomic particles.

The highest energy collisions are those between such heavy particles as protons and their mirror-image twins, antiprotons.

These are produced in the Tevatron of the Fermi National Accelerator Laboratory in Batavia, Illinois. Their collisions generate an enormously complex spray of atomic fragments, making it difficult to tell whether a top quark lies hidden in the debris.

Electron-positron collisions, like those in the Tristan, avoid this problem by using particles that, so far as is known, have no internal structure and no mass. They are dimensionless points.

Because they are of opposite charge, radio waves that accelerate electrons in one direction push positrons in the opposite one.

The Tristan can therefore simultaneously boost both kinds of particles in opposite directions in the two-mile (three-kilometer) ring in which they are accelerated.

The counter-rotating electrons and positrons collide head-on in four experiment areas uniformly spaced around the ring.

The Tristan is boosting the beams to 26 billion electron volts, or giga electron volts (GeV). This autumn the energy should increase to 28 GeV, and by next summer added superconducting magnets are expected to raise the energy to between 30 and 33 GeV.

With the Tristan and other machines, the Japanese are seeking to re-establish

See ATOM, Page 5

For Soviet Travelers, Bad Trip Is About the Only Kind

By Philip Taubman

New York Times Service

MOSCOW — Aeroflot flight 3868 was ready for takeoff from Irkutsk, eastern Siberia's largest city.

Already seven hours late on a 4,000-mile (6,500-kilometer) journey from the Black Sea resort of Sochi to the Far East city of Khabarovsk, the airliner was filled with bedraggled passengers and nearly hysterical children.

As the plane turned to face down the runway, a father sitting in the front row propped his young daughter on a narrow table hanging from the bulkhead.

A woman several rows behind reclined her seat and tossed one loose end of her seat belt over the armrest.

The open luggage rack overhead, crammed with heavy bags and packages, many sitting precariously near the edge, started to shake ominously as the takeoff began.

The cabin crew, having provided no safety information and made no effort to see if seat belts were fastened, was out of sight in the galley.

For Westerners traveling in the Soviet Union, the customs of Aeroflot, the world's largest airline, can be a puzzling curiosity. To Russians, they are an integral and seemingly unchanging part of the social fabric.

It is an ordeal that often distills into a single moment or journey the almost unimaginable inefficiency of the Soviet economy, and it gives an idea of the monumental problems Mikhail S. Gorbachev faces in



Soviet travelers, such as these in a Moscow train station, often face long, crowded delays.

he tries to modernize Soviet society.

Foreign visitors who complain about uncomfortable planes and sanitized tours in the Soviet Union do not realize how pampered they are by Intourist, the government agency that arranges and supervises most foreign travel.

It takes a few years of living in

the Soviet Union, and traveling widely, for a Westerner to begin to appreciate the hardships that most Russians put up with when they take a trip.

A recent 10,000-mile trip from Moscow to the Soviet Far East, with stops in Irkutsk, Khabarovsk, and the Pacific port of Nakhodka, near Vladivostok, was a reminder

that for Russians, moving about the Soviet Union means total immersion in discomfort.

This year, in a speech about economic problems, Mr. Gorbachev pointedly said: "We cannot put up with an unsatisfactory situation in passenger transport."

Aeroflot service has come under criticism, and, according to airline

officials and newspaper reports, the airline is making changes to better accommodate passengers. The Ministry of Railroads and other agencies involved in moving people have also promised improved service.

Unlike foreigners, who order their train tickets in advance and usually travel in relatively clean two- or four-person sleeper compartments, Russians face maddening delays trying to buy tickets and can spend hours, and sometimes days, waiting in overcrowded stations.

Moscow's train stations, which foreigners glide in and out of with porters carrying their bags and a bus or car awaiting them, can evoke Dickens' bleakest images of 19th-century misery.

The main stations in Moscow are perpetually filled beyond their capacity with waiting passengers often crowded into underground waiting rooms out of sight of foreigners.

Many of the thousands camped out are victims of an inefficient ticket sales system that books one-way travel only, forcing passengers to obtain return seats when they reach their destination.

The system, the bane of Soviet rail travel, works like a giant lottery, arbitrarily dispensing tickets and leaving passengers uncertain how long they can remain where they are going and exactly when they will return.

Obtaining hotel reservations can be equally daunting. Without the

See SOVIET, Page 5

West German Politician Found Dead

By Serge Schmemann

New York Times Service

BONN — A young West German politician who had been at the center of a political scandal for the past month was found dead Sunday in a Geneva hotel. The Swiss police had no immediate indication of the cause of death.

The politician, Uwe Barschel, 43, resigned as premier of the northern state of Schleswig-Holstein on Sept. 25 after a former aide said that Mr. Barschel had ordered a series of dirty tricks against his Socialist challenger in elections earlier last month.

The scandal has dominated the West German press since, with a steady progression of revelations and accusations.

Mr. Barschel, who went to the Canary Islands to vacation after resigning, was returning to the state capital of Kiel to testify Monday in a parliamentary inquiry. According to reports from Geneva, Mr. Barschel's fully clothed body was discovered at midday by a West German reporter who had come to the Beau Rivage Hotel for an interview.

Although initial West German news bulletins said Mr. Barschel had committed suicide, the police in Geneva said they had found no evidence of a bullet wound or any visible sign of violence. The police

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Algeria	0.00 Dr.	Iran	—	113 Dr.	Croatia	—	9,900 Drs.	
Austria	—	27.5 Dr.	Israel	—	Mrs. 2.50	Portugal	—	125 Drs.
Bahrain	—	0.50 Dr.	Italy	—	1,000 Lire	Oman	—	0.50 Drs.
Belgium	—	50 Dr.	Jordan	—	450 Drs.	Rep. of Ireland	—	75 Drs.
Canada	—	C\$1.95	Kuwait	—	200 Drs.	Saudi Arabia	—	700 Drs.
Croatia	—	C.C. 0.80	Kuwait	—	200 Drs.	Somalia	—	1,000 Drs.
Denmark	—	DK 1.00	Liberia	—	1,000 Drs.	Sri Lanka	—	2,000 Drs.
Egypt	—	£ 2.75	Liberia	—	50 Drs.	Sudan	—	2,000 Drs.
Finland	—	8.00 FM	Maldives	—	125 Drs.	Turkey	—	2,000 Drs.
France	—	7.00 F	Morocco	—	800 Drs.	Tunisia	—	2,500 Drs.
Germany	—	2.70 M.	Netherlands	—	300 Drs.	U.A.E.	—	700 Drs.
Great Britain	—	£ 0.60	Norway	—	500 Nkr.	U.S. Am.	—	1,200 Drs.

UNESCO Election: U.S. Stands Aloof While Awaiting Reform

Laura Gerosa is a deputy assistant secretary of state for international organizations at the U.S. State Department. Talking with Barry James, an IHT reporter, she explained U.S. policy toward the UN Educational, Scientific and Cultural Organization, where the director-general, Amadou Makhtar M'Bow of Senegal, is seeking a third term in office with the backing of the Organization for African Unity. Mr. M'Bow, whose policies have caused the United States, Britain and Singapore to pull out of UNESCO, won a plurality of 18 votes last week in each of the first two ballots by the organization's 50-member executive board. If no result is reached on the third and fourth ballots this week, a fifth and deciding vote will be taken between the two leading candidates.

Q. Why couldn't the United States get together with other Western countries to put up a convincing candidate to oppose

Mr. M'Bow, one who could attract support from all directions?

A. The United States is no longer a member state and we have to act in accordance with that position. Our problems were never personalized with Mr. M'Bow as the director-general, but rather with the structure, programs and budget of the organization. We have adopted

MONDAY Q&A

policy of encouraging our allies to engage in the reform of the organization and we consult with them regularly.

On Friday, the foreign minister of Pakistan, Salimuddin Yaqub Khan, who had been second in the election, withdrew from the race. Many countries that would like to see the departure of Mr. M'Bow and major reforms in the way UNESCO is run are likely to throw their weight behind the Spanish candidate, Federico Mayor. Is the United States pleased by this development?

A. As a nonmember of UNESCO we

consider it inappropriate to support any candidate in the election campaign.

Q. In 1984, the United States had specific reasons for pulling out of UNESCO. It was said to be over-politicized, badly managed and its budget was going to all the wrong places. In your opinion, have there been any changes for the better at UNESCO headquarters?

A. I think there has been some movement towards reforms, which are primarily cosmetic. The things that have been adopted so far — such actions as cutting back on the length of time of speeches, cutting back the length of sessions of the executive board, and requiring the director-general's report to the executive board to be submitted in writing before oral presentation — these are not really what could be described as fundamental changes. In terms of the kind of reforms the United States is interested in, I'd have to say there has not been any fundamental change.

Q. Irrespective of whether or not Mr. M'Bow gets back in, what would it take

to make the United States rejoin UNESCO?

A. We would consider rejoining only when there is evidence of fundamental institutional, programmatic and structural change. And by that I mean establishing a mechanism to give major donors greater weight in the budget and decision-making processes; depoliticization of UNESCO's programs; and concentration on its original mandate to foster international exchange in science, education and culture.

Q. Even if the administration did decide to rejoin, would Congress go along?

A. The position of UNESCO is connected to the larger picture of the U.S. government budget as a whole. This is a time of very tight budget constraints in the U.S. government. We are engaged, for example, in an effort right now to obtain full funding for those UN organizations to which we do belong, and that is a very difficult process. So it's really impossible to say if there would be any money for UNESCO at some uncertain time in the future.

Q. Some people have the suspicion that the United States would like to see UNESCO collapse anyway, that it would like to see the organization go under and be able to say "Ha, we told you so!" Is there any truth to this?

A. The United States would always prefer to see any UN organization with problems reform and put itself on the right track. We support the UN as an institution. The United States is still the single largest contributor to the technical and specialized agencies associated with the UN. We have an abiding interest in the health of the UN and its institutions.

Q. Is UNESCO worth saving?

A. We would always prefer to see any UN organization, particularly one with which we had such an intimate involvement in the beginning, put itself on the right track. UNESCO was created by the conference of allied education ministers after World War II, and the United States took a major lead in that.

WORLD BRIEFS

4,500 Salvadoran Refugees Returning

EL POY, El Salvador (Reuters) — About 4,500 Salvadorans refugees have begun returning from Honduras and should be across the border by Sunday, refugee aid workers said.

The refugees had been asking to return since January. Their effort was boosted by the Central American peace accord signed in August. The accord calls for an end to regional wars and urges governments to help refugees go home.

The refugee accord was reached at a meeting Friday night between the Salvadoran government, military and the United Nations High Commissioner for Refugees. The refugees are returning to areas that are still suffering from the Salvadoran civil war, in which at least 63,000 people have died and in which about a million people have fled their homes.

Jackson Formally Enters '88 Race

RALEIGH, North Carolina (AP) — The Reverend Jesse L. Jackson has formally begun his second campaign for the presidency, decisions here in his native region that the new, liberated South can "lead America to its loftiest and highest ideals."

At a foot-stomping, revival-style meeting Saturday, Mr. Jackson said his candidacy for the Democratic Party's nomination offered "bold leadership and a new direction" for a nation led astray by the Reagan administration.

"There is something wrong with our government's priorities today, our values are wrong," he said. "It wears a military fig leaf to cover its impotency." As in 1984, Mr. Jackson is the last major Democrat candidate to formally enter the race. He joins five others in seeking the party's nomination.

Spy May Still Be in Sweden, Police Say

STOCKHOLM (AP) — A convicted Swedish spy, sought throughout Europe after slipping away from police here last week, may still be in Sweden, the police said Sunday. Calls mounted for the minister of justice to resign over the affair.

Sig Bergling, who was serving a life sentence for selling military secrets to the Soviet Union, escaped when he was left without surveillance during an overnight leave with his wife. The police said one of three cars apparently used in his escape was found Sunday in a Stockholm suburb, contradicting earlier theories that he and his wife had fled to the Soviet Union through Finland, where another car had been found.

The escape added to the problems of Sweden's police forces, who were widely criticized for failing to find the assassin of Prime Minister Olof Palme. Opposition newspapers repeated on Sunday calls for Justice Minister Sten Wickstrom to resign, and two leading representatives of Mr. Wickstrom's party, the governing Social Democrats, suggested in an open letter that he step down.

Karpov Draws White for First Game

SEVILLE, Spain (Reuters) — Anatoli Karpov, the challenger in the world chess championship match, scored an initial tactical advantage by drawing white at the opening ceremony against the titleholder, Garry Kasparov.

The draw Saturday night gave the 36-year-old former champion the advantage of playing the first move in the opening game Monday afternoon. The match is a 24-game series, with victory going to the first player to score 12.5 points.

In their three previous encounters, Mr. Karpov, 24, has drawn white only once, in Moscow in 1985. He won the first game and went on to win the match, deposing Mr. Karpov from the throne he had occupied for a decade. The title match was declared a draw in February 1985 after 38 games, and Mr. Karpov won a return match with Mr. Karpov that began in the summer of 1986.

Italy Coalition Wins Education Vote

ROME (Reuters) — The five-party coalition government of Prime Minister Giovanni Spadolini has avoided a crisis by reaching a last-minute agreement on modifying religious education in schools. The modifications had been opposed by the Varian.

The Christian Democrats, Socialists, Republicans, and Social Democrats agreed to vote with Mr. Spadolini on Saturday, but the Liberal Party abstained, parliamentary sources said. The government won the vote in the Chamber of Deputies 286-234 after a night of negotiations between Mr. Spadolini and coalition members who were angry at what they considered to be his bowing to the Vatican.

The Vatican objected officially last week to the proposed changes, which will allow schools to schedule religion classes at the beginning or end of each school day. The Vatican said the changes violate the 1984 revision of the Vatican Concordat, which regulates relations between the church and Italian state. The concordat for the first time gave parents the right to choose whether their children should attend religion classes and the supplementary accord laid down the specific conditions.

U.S. Budget Cuts Won't Hit Soldiers

WASHINGTON (NYT) — President Ronald Reagan has notified Congress that the Defense Department would exempt the pay and benefits of military personnel from the cuts that have to be made under the revised law to balance the budget.

Designating that exemption means that the Pentagon must absorb up to \$11.5 billion in budget cuts elsewhere, primarily in operations and readiness and, to some extent, in the development and procurement of weapons and equipment.

The decision, based on a recommendation by Defense Secretary Casper W. Weinberger, seemed certain to be greeted with approval by senior military officers, who have consistently maintained that taking care of the troops must come first. But privately, those same officers have lamented the prospect of the alternative cuts, saying many gains in the pace of operations, in making the forces ready for combat and in the acquisition of modern weapons will be severely reduced.

For the Record

Police in Wackersdorf, Bavaria, used tear gas and truncheons Saturday to disperse about 20,000 West German demonstrators protesting a nuclear waste recycling plant under construction there, officials said. At least 10 protesters were injured.

(AP) King Hussein of Jordan and President Hosni Mubarak of Egypt met in Cairo on Sunday. The two leaders have met regularly since Jordan resumed relations with Egypt in 1984 after a five-year break. (Reuters)

TRAVEL UPDATE

Eight unions have called for a strike at Air France on Thursday, the day of a civil service walkout, to press for maintaining the purchasing power of all present and retired employees, and for maintaining what they call the company's "public service mission."

A British Airways Concorde jetliner carrying almost 100 people ran stack-up Wednesday but landed safely after it was given emergency priority, the weekly newspaper The Observer reported Sunday. (UPI)

This Week's Holidays

Banking hours and government services will be closed or curtailed in the following places this week because of national and religious holidays:

MONDAY: Argentina, Bahamas, Belize, Brazil, Canada, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Fiji, Guam, Guatemala, Honduras, Mexico, Panama, Paraguay, Puerto Rico, Spain, the United States, Uruguay, Venezuela.

TUESDAY: Iran.

WEDNESDAY: North Yemen, Zaire.

THURSDAY: Israel, Tunisia.

SATURDAY: Haiti, Malawi.

Source: Morgan Guaranty Trust Co., Reuters

U.S. Reluctance to Pay Its Full Share Could Cripple UN Force in Lebanon

By Paul Lewis

New York Times Service

UNITED NATIONS, New York. — The United Nations peacekeeping force in southern Lebanon faces what could be a crippling financial crisis as a result of moves in the U.S. Congress that threaten to cut off all American money for the operation, according to UN officials and diplomats.

The nine countries contributing soldiers to the force — France, Finland, Fiji, Ghana, Ireland, Italy, Nepal, Norway and Sweden — have protested to the White House over the U.S. failure to pay its full share of the cost of the force this year and the possibility that it will fail to contribute at all next year, the officials say.

The force of 5,700, known as the United Nations Interim Force in Lebanon, or Unifil, is the largest UN peacekeeping operation. It was deployed in 1978 at the insistence of the United States after the Israeli invasion of southern Lebanon that March.

For the coming year, the U.S. Senate has refused to approve any

money toward the United States' \$49 million share of Unifil's \$140 million annual cost. The U.S. House has voted to appropriate \$18 million, an amount that is in line with what President Ronald Reagan had requested and at the level of what the United States paid last year.

Explaining its action on the force, the Senate said in a budget report that it "continues to believe Unifil is an ineffective and symbolic force."

If the United States refuses to pay anything toward Unifil's cost this year, diplomats and officials say, the United Nations will have to ask countries contributing soldiers to pay even more of the costs. Some of them may refuse and pull their troops out.

Israelis Hit Bekaa

Israeli Air Force planes have at-

DOONESBURY

BY LAST WEEK, NO ONE IN THE EXTENDED BUSH CLAN WAS ON SPEAKING TERMS.

FIRST, GEORGE'S STEPPERTH-IN-LAW MADE A POLITICAL CONTRIBUTION TO JACK KEMP'S PRESIDENTIAL CAMPAIGN...

THEN HIS SECOND COUSINS, TED AND BOOTS, DEFECTED TO THE AL-HAG JUGGERNAUT, BUT TO GEORGE, THE LAST STRAW WAS...

PETE DU PONT! HE'S MY MAN!

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One of a series of messages from leading companies of the world appearing during the IHT's anniversary year.

Full Steam Ahead On A Steady Course

In the 19th century

Degussa originally a family run precious metals refining and chemicals manufacturing business, emerged as a publicly quoted metals and chemicals company.

In the 20th century

Degussa grew into an internationally renowned metals, chemicals and pharmaceuticals concern, with a turnover of 12 billion D-Mark and over 30 000 employees, with plants and operations in Europe, North and South America and Asia.

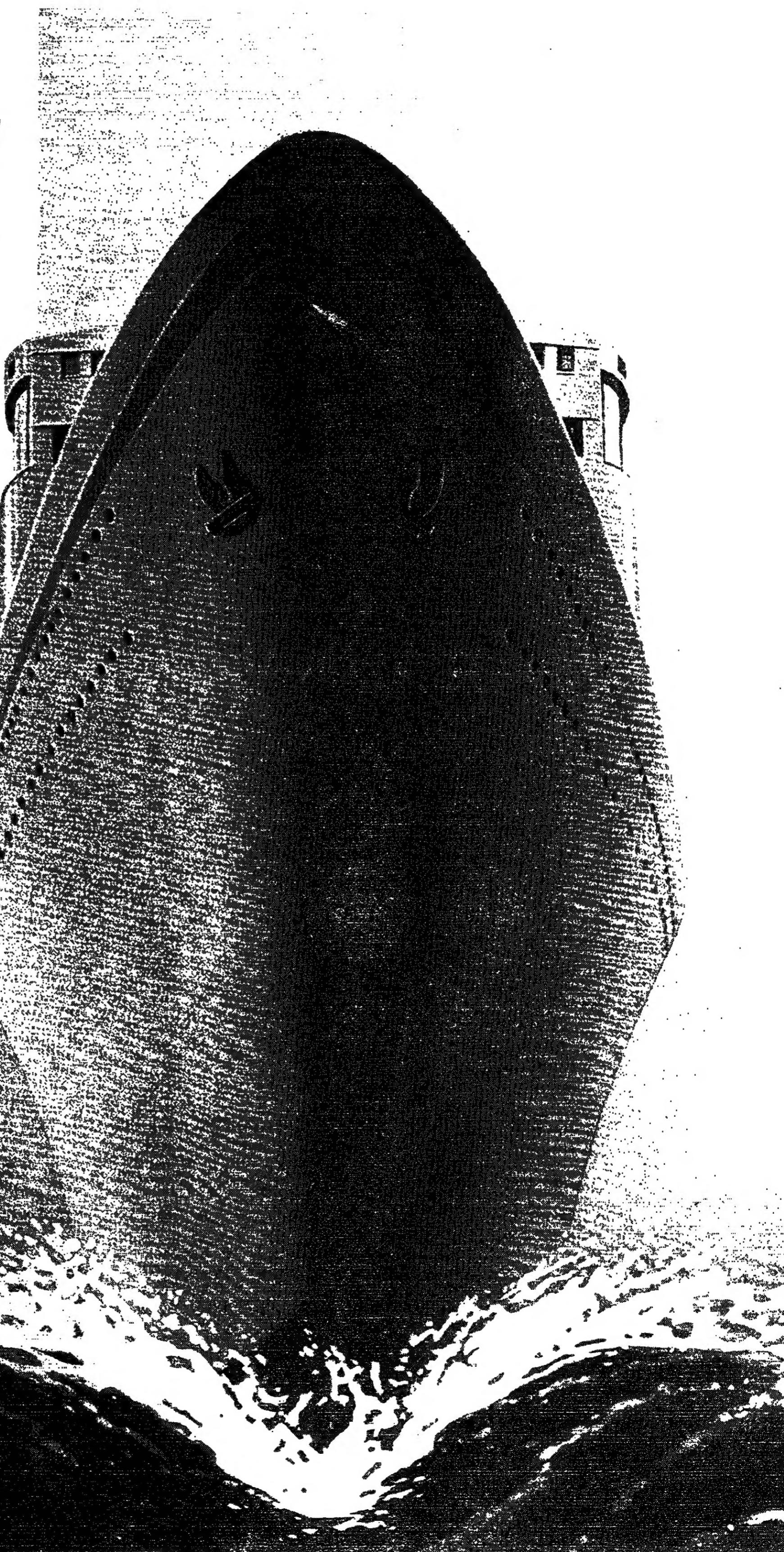
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Degussa A diamond-shaped logo containing a stylized letter "D".

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GM and GE Seek Right To Launch Satellites From Soviet Rockets

By William J. Broad
New York Times Service

NEW YORK — Two major U.S. companies are battling the government for the right to launch communications satellites on Soviet rockets.

The companies, General Motors and General Electric, have formally asked the government to drop its ban on the launching of U.S.-made satellites by Soviet rockets. Both concerns have subsidiaries that make and market space satellites.

In response to the companies' increasingly vigorous campaigns, involving both public and private lobbying, the Reagan administration has softened its opposition to the private hiring of Soviet space services.

The clash comes at a time when the U.S. space program is without rockets to send commercial satellites into space and the Soviet Union has stepped up efforts to make commercial use of its own space program, which until recently was shrouded in secrecy.

Soviet Rejects U.S. Account Of Arms Deal

By Michael R. Gordon
New York Times Service

WASHINGTON — Soviet officials have publicly disputed the American account of a compromise worked out last month on West Germany's Pershing-IA missiles.

The Soviet statements, which were made Friday at a news conference at the Soviet Embassy in Washington, came a day after American officials said Soviet negotiators were backing away from the compromise reached by Secretary of State George P. Shultz and the Soviet foreign minister, Eduard A. Shevardnadze.

The issue of the West German missiles, the warheads of which are controlled by the United States, was considered the last major hurdle to a Soviet-American accord banning medium- and short-range nuclear missiles.

Sergei D. Chuvakhanin, a Soviet Embassy counselor, said that the question of a timetable for dismantling the 72 shorter-range West German missiles was not dealt with in the talks last month and that it now needed to be settled in treaty negotiations in Geneva.

All types of shorter-range missiles, including German Pershing-IA missiles, should be included in the agreement," Mr. Chuvakhanin said. "We think it is a reasonable position."

This statement was consistent with a recent Soviet proposal in Geneva that Moscow be allowed to maintain some of its shorter-range missiles until the West German missiles are dismantled.

But American officials again said that the two sides resolved the entire issue of the West German missiles by working out a compromise formula last month and that the issue should not be reopened.

Under the compromise formula,

the United States provided the Russians with an assurance outside the formal treaty that the American warheads for the West German missiles would be dismantled once Bonn carried out its pledge to eliminate its missiles.

The United States does not want the treaty to cover the West German missiles because it does not want to set a precedent for including the nuclear weapons of allies in future negotiations.

An administration expert said the compromise was reflected in the records of the negotiating sessions last month.

He said the working group of American and Soviet arms control experts prepared a list of agreed points and remaining questions. The question of what should be done with the West German missiles was not among the list of unresolved questions, the administration expert said.

U.S. companies say they are seeking the lowest prices and best services and are worried that foreign rivals may take advantage of the Soviet offers.

"We could be at a grave disadvantage," said John E. Kochler, president of Hughes Communications, a GM subsidiary that markets communications satellites.

James M. Beggs, former administrator of the National Aeronautics and Space Administration, said government policy should be revised.

"Satellite producers, if they are comfortable with the risk of doing business with the Russians, should be allowed to get launchers wherever they want," he said. "The Soviets are offering a service that other people already offer. There's lots of international competition."

Government officials insist that commercial factors should take a back seat to issues of foreign policy and national security.

"It's not in the U.S. national interest to issue export licenses for satellites," said Robert B. Mantel, an official in the State Department's bureau of political-military affairs, who argued that Western technological secrets might fall into Soviet hands.

Representative Bill Nelson, Democrat of Florida, who heads the House Space Science and Applications Subcommittee, and whose district includes the Kennedy Space Center, said the deeper issue was whether freedom to use Russian rockets would doom the fledgling commercial rocket industry in the United States.

"I'm astounded that people think of Russian rockets as an alternative," he said. "That would blast any chance of a commercial launch industry succeeding here. The contamination occurred in Goiania, Goias State, in southeastern Brazil, early last month but was only reported later in the month.

Mr. Nelson's subcommittee recently held hearings on the health of the rocket and satellite industries.

The dispute is fueled by the continuing repercussions of last year's space disasters. After the space shuttle Challenger exploded, President Ronald Reagan ordered an end to the launching of commercial satellites by the shuttles. Two other types of U.S. rockets also exploded upon takeoff last year, grounding another part of the rocket fleet used to send satellites aloft.

Experts say it could be several years before the United States forms a private rocket industry for commercial launches. While a few U.S. companies are developing private launching services, and some, including Martin Marietta and McDonnell Douglas, are even signing up customers, none has built any rockets. It will be 1989 at the earliest before they can begin to fulfill the contracts, experts said.

General Electric, whose American division sells communications satellites, recently told Mr. Nelson's subcommittee that the government ban should be reconsidered because access to Soviet rockets would help the industry survive the problems of U.S. rocket and lower costs.

The U.S. should seriously investigate whether commercial satellite operators should be allowed to use the services of the Proton," Eugene F. Murphy, GE's senior vice president for communications and services, told the subcommittee. Proton is the main Soviet rocket.

Mr. Murphy dismissed fears that high technology would fall into Soviet hands, saying, "We believe that these concerns can be overcome and that U.S. satellites can be satisfactorily fitted and launched without giving away hard-won technological know-how."

The world's largest maker of communications satellites, Hughes Aircraft Co., which is owned by GM, the world's largest corporation, echoed those sentiments.

"To be competitive, we must consider procuring launch vehicles overseas," Steven D. Dorfman, Hughes' vice president of space and communications, told the hearing.

There is nothing to indicate that a U.S. military confrontation with Cuba is in the offing, but foreign affairs and military experts say



Brazilian anti-nuclear protesters demonstrating in Goiania, where radioactive powder has contaminated 24 people.

Major Radiation Accident Shocks Brazil

By Marlise Simons
New York Times Service

RIO DE JANEIRO — Experts from the United States, the Soviet Union and elsewhere have rushed to Brazil to assist after a radiation accident proved to be the most serious of its kind in the Western Hemisphere.

A broken capsule of cesium 137, a highly radioactive material, has contaminated at least 24 people, eight of whom have been hospitalized and are in critical condition. The contamination occurred in Goiania, Goias State, in southeastern Brazil, early last month but was only reported later in the month.

Cesium 137 is commonly used in the form of powder or pellets to give a radiation dose to cancer pa-

tients, and it also has wide application in industry. Produced in nuclear reactors, it is one of the lethal substances that escaped during the Chernobyl nuclear disaster in the Soviet Union.

The material escaped, when workers in a scrap metal yard smashed open a lead capsule containing cesium that was part of a hospital irradiation machine. The machine had been left behind when the Goiania Institute for Radiology moved. Several young men found it and handled it to a scrap metal dealer, Devalves Ferreira, 33, who bought it.

The accident was reported to authorities after the family of Mr. Ferreira and his relatives and neighbors showed serious burns and became violently ill. Scientists said the federal government was

slow in recognizing the magnitude of the emergency.

But as the panic rises, President José Sarney has ordered an investigation to punish all those responsible, including the doctors who abandoned the irradiated machine. Scientists have also faulted the National Commission for Nuclear Energy.

Two American doctors with expertise in radiation emergencies and a Soviet doctor who treated Chernobyl patients are among the foreign advisers in Goiania.

Technicians using geiger counters and other instruments are still seeking to track and clean up the contamination. The radioactive material is in a troublesome form, a powder, which apparently has blown through an entire neighborhood.

The high-level radioactive waste from 25 homes and from several hospitals where victims of the accident have been treated will be buried at a designated site in the Amazon basin, the experts said.

Senator Warns Reagan On Future Court Choice

Cranston Says Nominee After Bork Won't 'Sail Through' Confirmation

The Associated Press

WASHINGTON — A prominent Senate Democrat warned Sunday that the White House should not assume that the apparent defeat of Judge Robert H. Bork as a nominee for the Supreme Court will mean the next nominee can expect swift approval.

"I don't think anybody should share the illusion," said Senator Alan Cranston of California, "that the next nominee will sail through like a greased pig no matter what that nominee may be like."

"We'll take a hard look at the nominee," Mr. Cranston, the assistant majority leader in the Senate, said in a television interview.

Judge Bork surprised members of Congress and, apparently, the White House when he said Friday that he would continue his fight for the nomination, even though a majority of senators are publicly opposed to his confirmation.

The decision may have surprised official Washington, including the White House. But it was in keeping with the philosophy that led Mr. Bork from his early days as an academic to challenge widely held principles of law and to become one of the most controversial figures in his field.

"He did the right thing for Robert Bork," said a Washington lawyer, A. Raymond Randolph, a close friend and adviser who was with the judge as he grappled with his options this week. His wife, Mary Ellen, was a consistent advocate for staying the course, sources said.

"There was a consensus among everyone that it was a personal decision for him to make," Mr. Randolph said. "He listened to arguments on both sides. The way he has acted throughout this is the way one would have expected a judge to act. He listened and considered and came to his decision."

During a week of meetings and telephone conversations with friends and advisers, Judge Bork was told that "enough was enough," that if he did not withdraw from the nomination he would be delaying the next nominee for the Supreme Court vacancy and that there was no reason to continue what was widely seen as a futile battle.

He also was told that the sympathy many senators felt for him would evaporate if he plunged the Senate into a bitter confirmation debate.

But Judge Bork, visibly upset by the campaign waged against him, did not want to give up.

"I think he is doing this because he knows that if he withdraws now, the distorted process against him will have been successful," an adviser said. "He may not know what is coming but he knows what is doing the right thing and important thing."

Poland Will Vote on a 'Radical' Plan for Economy

By Jackson Diehl
Washington Post Service

WARSAW — Poles will vote in a national referendum in November on whether the government should put into effect a "radical version" of consumer price increases that would triple inflation, government officials said Saturday.

Prime Minister Zbigniew Messner gave parliament a detailed plan to reorganize the Polish economy, including steps to expand private enterprise, make state-owned enterprises autonomous from most central controls and raise Polish wages and prices to world market levels.

An initial package of legislation submitted to parliament Saturday calls for the consolidation or abolition of 16 government ministries and the dismissal of 3,000 to 3,500 of the 12,000 government workers responsible for central management of the economy. About 100 of 194 government officials at the level of vice minister or above also would lose their jobs.

Mr. Messner told parliament that the new policies, the most ambitious undertaken by the government of General Wojciech Jaruzelski since it suppressed the Solidarity labor union in 1981, had been inspired in part by the initiatives of the Soviet leader, Mikhail S. Gorbachev.

But government officials and economic experts said Warsaw's measures were far more radical than those adopted by the Soviet leadership earlier this year.

At the same time, officials said they were deeply concerned about public reaction to the package and especially to efforts to raise prices.

Although asserting that Poles would not suffer a fall in living standards, officials said Saturday that the public would have to accept hardships and sacrifices as huge state subsidies for goods were drastically cut back and controls on prices removed.

In a press conference, the leading architect of the package, Deputy Prime Minister Zdzislaw Sadowski, said that in a national referendum planned for Nov. 29, Poles would be able to vote on whether to carry out the radical restructuring advocated by the government. If approved, he said, the plan could lead to an inflation rate of up to 57 percent next year, compared with a rate now reported by the authorities to be 18 percent.

The parliament, called the Sejm, voted to authorize the referendum Saturday. But approval of the specific content of the resolution to be put to voters was postponed.

Mr. Sadowski said the salaries of most Polish workers would also be

drastically increased, compensating for most of the price rises. He said, however, that public reaction to the shift could be strong and might force abandonment of the plan.

In addition to the cutback of the bureaucracy, measures planned before the end of this year include removing central controls on businesses organized as cooperatives, allowing citizens to buy bonds from state companies and improving incentives for foreign capital to invest in joint ventures with Polish companies.

Mr. Messner also said Poland hoped its new program would persuade the International Monetary Fund to grant the country a struc-

tural adjustment program in the coming months, including major new IMF and World Bank credits. Poland needs the money to manage the payment of its huge foreign debt, officials said.

According to the timetable, changes next year would remove some of the controls on starting and maintaining private businesses, create a commercial banking system, abolish the state monopoly on agricultural procurement and wholesale trade and introduce personal income taxes.

Officials said government officials dismissed under the program might be given pensions or offered opportunities to start their own private businesses.

AMERICAN TOPICS

Defector Says Cuban Pilots Practice for Strike on U.S.

By Joseph B. Treaster
New York Times Service

WASHINGTON — A Cuban Air Force general who defected to the United States five months ago says Cuban combat pilots regularly practice for retaliatory strikes against a U.S. Air Force base in Florida.

The defector, Brigadier General Rafael del Pino Diaz, a former deputy commander of the Cuban Air Force, said in an interview that the training was strictly defensive and that Cuba had no intention of starting a fight with the United States.

There is nothing to indicate that a U.S. military confrontation with Cuba is in the offing, but foreign affairs and military experts say

they cannot rule out the possibility of a limited clash.

The Florida target designated in secret Cuban plans, General del Pino said, is Homestead Air Force Base, south of Miami.

U.S. strategists had recognized that Cuba, with the largest air force in Latin America, had the ability to strike targets in Florida. But a spokesman for the Defense Department and a State Department official said the United States had not previously been aware of such a specific plan.

Ramón Sánchez-Parodi, the chief of Cuba's diplomatic mission in Washington, said he could not comment on Cuban military training or how Cuba might react to an attack.

London CHIEF OF STAFF: Sir Peter de la Billière, 72, has been appointed to command the Royal Air Force.

He succeeds Sir John Cope, 69, who has been promoted to chief of the Royal Navy.

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London CHIEF OF STAFF

INTERNATIONAL HERALD TRIBUNE

Published With The New York Times and The Washington Post

Gorbachev's Quagmire

Mikhail Gorbachev continues looking for a relatively painless way out of Afghanistan, just as Lyndon Johnson and Richard Nixon looked for a way to escape Vietnam. He wants to leave without seeming to abandon a vulnerable client regime. Thus Soviet diplomats talk about forming an interim regime including Afghanistan's former King and with non-Communist holding half the cabinet posts. They also talk about United Nations peacekeepers to monitor compliance with a UN-brokered peace as 120,000 Soviet troops return home.

These are negotiable propositions. They deserve sympathetic consideration. But as past American presidents will attest, getting out of quagmires has to be painful — and probably cannot be accomplished without running the risk of losing.

That Mr. Gorbachev wants out and is willing to pay a price is evident from telltale shifts. First, Soviet theologians determined that the Communist regime in Kabul was not really Communist. It was then hinted that the former king, Mohammed Zahir Shah, might return in an unspecified role — but with Afghan Communists being in the dominating "vanguard." Now it is said the regime could be split evenly with Communists.

The United States, the United Nations and others would be well advised to help Mr. Gorbachev establish a decent interval between Soviet withdrawal and whatever follows. But difficulties loom large. Insurgent groups themselves are deeply split, and some hate one another almost as much as they hate the Communists. How are they to be unified?

— THE NEW YORK TIMES.

Traps on Chemical Arms

Soviet and American officials boast that they are near agreement on banning chemical weapons. Ridding the world of these repulsive weapons truly would represent progress for humankind. It is far from clear, however, that the ban can be effective and verifiable — even though the two sides now accept provisions for on-site inspections.

Direct inspections mark a real advance in monitoring arms treaties. But they do not in themselves provide the necessary guarantees on chemical weapons, which can be readily secreted and made in many factories where chemicals are used.

If the experts have figured out answers to such thorny verification problems, these should be shared with Congress and the public. If they do not have the answers, they had better get to work finding them.

But if remaining worries loom large, so does recent progress. Six months ago, the Russians did not even admit to having chemical weapons. Early this month, they let visitors from 45 nations tour their largest chemical weapons production facility.

Negotiators in Geneva say they have agreed on a halt to production, a system for locating and destroying existing chemical weapons and facilities, and a system for overseeing the chemical industry to preclude covert production. They are working on details for an international agency that would verify the ban and supervise destruction of weapons and facilities over 10 years.

The current surge of optimism comes from the Russians' sudden accession to Washington's demand for the right to on-site inspection on 48-hour notice with no right of refusal. As with Moscow's agreement to on-site inspections in the medium-range missile

— THE NEW YORK TIMES.

The Amazing Mrs. Luce

The first thing to be said about Clare Boothe Luce, who died Friday, is that you would not have dreamed of saying "her" that she was "84 years young" or indulging, in any of those other affectionate little condolences people reserve for the old. Until illness finally got her, Clare Luce remained a woman of unconditional elegance and interest. At 84 she still tended to be, as she must have been half a century before, the most attractive person in the room.

Much has been written and more will be about her amazing life. She hardly left a single precedent or taboo or barrier standing that got in her way as an ambitious, insatiably curious woman. In an age in which credentials sometimes seem to be the kind of thing that is dispensed as a diploma, license or badge from some boring bureaucracy, Mrs. Luce manufactured, by her very style of living and her drive, her own credentials. A bona fide intellectual, she gave herself a lifelong college education, not having had the real four-year kind as a young woman. She raised early feminist hell. To the end she said things others would not dare to —

— THE WASHINGTON POST.

Other Comment

Underlying the Bork Debate

Far from being irrational, the forces producing Judge Robert Bork's defeat were both logical and inevitable. Americans don't want preachers in politics, school prayer in public classrooms, perceived extremists on the Supreme Court. They are neither liberal nor conservative; they are practical — yes, "pragmatic." If anything defines Americans philosophically today, it is their belief in moderation and fairness.

— Haynes Johnson, *The Washington Post*

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OPINION

Next, Swap Nuclear Artillery for Soviet Tanks

By Joseph S. Nye Jr.

CAMBRIDGE, Massachusetts — Too little attention is being paid to the likely aftermaths of the emerging "double zero" agreement to remove intermediate- and shorter-range nuclear missiles from Europe. In NATO, the pact will create a new set of problems and tensions centering on conventional Soviet military strength, particularly tanks. These fears could be alleviated by a different arms control proposal that mixed reductions in nuclear and conventional force.

Criticism of America is growing in West Germany, primarily among conservative supporters of the Kohl government. They argue that Pershing-2 and cruise missiles were not placed in Europe solely to counter Soviet SS-20 missiles. The capacity of those missiles to strike Soviet targets provides a reassurance that the nuclear threat is not low by West Germany alone.

Another solution would be conventional-arms control. As nuclear weapons are reduced, the balance of conventional forces becomes more important. NATO and the Warsaw Pact have made little progress in 14 years of negotiations on the reduction of conventional forces in Europe, and the Mutual and Balanced Force Reduction talks in Vienna have attracted a degree of diplomatic cynicism. Moreover, the talks have focused on reductions in military manpower that would do little to remove the threat posed by forward-deployed Soviet armor.

If Soviet tanks provide a major reason for having nuclear artillery, then why not pursue mutual reductions in nuclear weapons and armor? Such an arms control agreement

would reduce the real military threat in a way that symmetrical reductions in manpower or tanks would not.

Moreover, since arms control has become a central way of thinking about security problems, leaders of democratic countries must pay more attention to educating the public. Even if Moscow was slow to accept a "nuclear artillery for tanks" proposal, the public would be led to focus on the relevant security issue and would be less divided by a Soviet "implausible" nuclear proposal.

The terms of the trade should not allow total demilitarization, especially since democratic politics may make it more difficult for NATO to reintroduce nuclear weapons than for the Soviet Union to reintroduce tanks. If we are to make useful progress in arms control after the double-zero pact, we must avoid thinking in separate nuclear and conventional compartments. A nuclear artillery-for-tanks proposal would be an important step in that direction.

The writer is director of the Center for Science and International Affairs at Harvard University. He contributed this view to *The New York Times*.

As the Clock Ticks On, Nations Play

By Flora Lewis

PARIS — The spread of nuclear weapons capacity has been slower than most experts thought likely when the nuclear nonproliferation treaty was signed in 1968. But it has spread, largely under a veil of secrecy because the treaty created a climate of international disapproval that states prefer not to face openly.

Israel doubtless has a stock of weapons. South Africa either has some or could make them quickly. India has conducted a test and Pakistan is on the verge of acquiring the ability to produce weapons. Various pressures have prevented Iraq, South Korea, Libya, Brazil and Argentina from going ahead with their plans.

But the world is no more peaceful and stable, and the issue remains critical. Now the U.S. Congress is struggling over what to do about Pakistan. U.S. law cuts off aid unless there is a renewal of the waiver passed after the Soviet invasion of Afghanistan, or unless Pakistan can show that it has stopped working on the bomb.

Despite Islamabad's denials, evidence has piled up that it has been pushing ahead all through the six-year waiver period. Arshad Pervez, a Canadian citizen of Pakistani origin, will be tried in Philadelphia next month for attempting to export illegal, a special steel needed to enrich uranium to weapon grade.

The waiver, which expired Sept. 30, was accepted in 1981 on the argument that Pakistan was still far from getting the bomb and could be induced to forgo the effort with more conventional military aid. Representative Stephen Solarz of New York says that it is "now clear the policy has been a failure" and that Pakistan has shown an "unbelievable arrogance."

The United States is embarrassed because support for the Afghan rebels requires Pakistan's cooperation. It does not want to endanger that while the Russians are in Afghanistan. Neither does Mr. Solarz, but he thinks Pakistan will allow arms for the rebels to keep flowing for its own reasons, and might just comply with his new proposal not to enrich nuclear fuel to weapons grade.

A head-on conflict exists here between two widely backed U.S. policies: a commitment to nonproliferation and a pledge to sustain the Afghan resistance. It is another example of cross-purposes.

Prime Minister Mohammed Khan Junjo says that Pakistan does not seek a bomb, and "if we wanted one, we would not keep it secret." U.S. intelligence says otherwise.

Islamabad will not sign the nonproliferation treaty nor allow outside inspections unless India also does. It has suggested mutual inspections with India, as Brazil and Argentina agreed when both ousted military dictators met at about the same time.

India flatly refuses, and will make no effort to test whether Pakistan is building. It argues that as a sovereign nation it will not do what the five known nuclear powers will not do. Less formally, India points out that it has been at war four times with Pakistan and once with China, a nuclear power, and needs a nuclear option.

But India is confident of its military superiority. It wants to be recognized as the regional superpower, which means it will not accept equal status with Pakistan on the nuclear issue.

The Afghan problem makes the circle more vicious. The Russians evidently do want to leave, but they want to leave a compliant regime behind so as not to admit failure. Pakistan is confident U.S. aid will continue until Moscow gives up.

Indian and Pakistani intransigence is more a matter of pride than security. The two have a point that the superpowers have yet to reduce their arsenals significantly, as promised almost two decades ago in the nonproliferation treaty. The impending U.S.-Soviet missile pact is too limited to make a difference to them, and nothing has been done to limit tests for design of new weapons.

A new Moscow offer to allow only four nuclear tests of one kiloton each in a year could lead to an important change. By itself, it would not cut arsenals but it would stop new types of weapons and it could be verified. But America wants to keep its design teams working. That spurs others.

Everybody has a stake in preventing Pakistan and others, from adding to the list of nuclear states. Everybody has reasons not to take steps to assure nonproliferation. Everybody has reasons that others should break the gridlock. The nuclear clock ticks on while nations play Alphonce and Gaston — "Please, go on first."

The New York Times

The Irony of Defending Those America Fears to Arm

By Jim Hoagland

PARIS — Remember the Nixon Doctrine? The promise that post-Vietnam America would provide its Third World allies with the weapons and training to fight their wars but would not fight those wars for them?

That doctrine reached its zenith when Richard Nixon promised in 1972 to sell Shah Mohammed Reza Pahlavi any conventional-weapons system the Iranian monarch wanted. But it slid into ignominy with the collapse of South Vietnam in 1975 and the fall of the shah four years later.

Now the Reagan administration has turned the Nixon Doctrine on its head, and the locale is again the Gulf. It is there that the administration is sending Americans to fight for Arab states it will not or cannot arm.

To be fair, this is not a result the White House set out to achieve. It is Congress that has religiously blocked arms sales to Saudi Arabia, Kuwait and Bahrain — the same countries the administration is deploying American ships and men to protect from Iran. As for Iraq, Iran's main enemy, Cor-



Tell you what, Cap'n — I'll put a little slipnot in here.'

law is the Supreme Court's mission primarily to protect the minority, or to ensure that majority rule prevails in a democracy? Should confirmation proceedings become gut-fighting political battles, with men and women of the law set up for lynching if they do not pass the right litmus test?

Stop playing to the balcony, senators, and start the debate on the floor. Influence each other, then take your stand. Judge Bork, at the brink of defeat, has already won a victory for honor, decency and respect for the law.

The New York Times

Open the UN Archives on Nazi Crimes

By Benjamin Netanyahu

NEW YORK — In Paris, a candidate for the French presidency asserts that the Nazi gas chambers were a "minor detail," a historical footnote. In London, a new play says the Holocaust was a joint conspiracy of the Zionist and Nazis.

The incoherence of the administration's response to this dilemma was on display Thursday. As the White House was backing away from its proposal to sell Maverick missiles to Saudi Arabia and Stinger missiles to Bahrain, U.S. helicopters were busily attacking four Iranian patrol boats in the Gulf after the Iranians had foolishly enough to fire on a U.S. observation helicopter.

Now the United States really be willing to ask its sailors and seamen to be ready to die for Kuwaiti tankers and their "revenue" America's Arab allies of its reliability, but not willing to provide those allies with modern weapons.

To be fair, this is not a result the White House set out to achieve. It is Congress that has religiously blocked arms sales to Saudi Arabia, Kuwait and Bahrain — the same countries the administration is deploying American ships and men to protect from Iran. As for Iraq, Iran's main enemy, Cor-

design a policy to fit that explanation. Originally it was said that the Stark would one day be turned against Israel helps explain Congress's share of the American dilemma in the Gulf. That is a problem to be explored another day. What is important at this point is not to lose sight of the accidental nature of the growing U.S. involvement in the Gulf and the vulnerability of U.S. designs to forces that have no particular reason to wish America well — not only Iran, but also Iraq and the Soviet Union.

It is a brief, the kind of simulation that gave rise to the Nixon Doctrine in the first place.

In the understandable pleasure Washington takes in the Iranian-bashing opportunities of the moment, it is too easy to forget that 37 American sailors have already died in this conflict, and not at Iranian hands. The mistaken Iraqi attack on the frigate Stark in May forced the administration to explain why those men had been put in harm's way, and then to

head damage in the war to acceptable levels in recent years.

Last winter, when Iraqi air attacks were devastating Iranian refineries and cities, Kuwait and Saudi Arabia understood that they would face Iranian retaliation if the attacks continued. The deep air raids only stopped and are only being resumed now that the Weinberger Shield surrounds Iraq's two allies.

The thresholds of acceptable violence appear to be on an escalator that Iraq controls better than does America.

Washington has succeeded in reducing the worries of Kuwait, Saudi Arabia and Iraq, as the State Department's Arabists promised. After all, Iranian retaliation would not hit American sailors and soldiers, and not something that Congress and the Arabs seem to think worth hoarding for more: sophisticated weapons.

The Washington Post

100, 75 AND 50 YEARS AGO

1887: Wilde's 'World'

LONDON — Oscar Wilde today [Oct. 11] issued his programme of assuming the editorship, beginning Nov. 1, of the magazine "The Lady's World." This name he changes to "Woman's World." His list of contributors is mainly composed of ladies allied to the Peerage, many of whom have not been hitherto suspected of literary ability.

NEW YORK — An amusing feature of the registration preliminary to the election going on here today is the fact that a number of strong-minded ladies are trying to prevent its opening now, as there are no less disturbing.

Failure to open the files continues the complicity in that same silence.

The writer is the permanent Isreali representative to the United Nations. He contributed this comment to *The New York Times*.

1937: Visits of Note

BERLIN — The Duke and Duchess of Windsor arrived in Berlin today for a 12-day visit in Germany as guests of Reichschancellor Adolf Hitler. The former King of England and his American-born wife received in the German capital the warmest welcome they have yet had since they were married last June in the Chateau de Candé in Touraine. Big crowds of Germans gathered at the station for their arrival and in front of their hotel shouting "Heil."

WASHINGTON — Vittorio Mussolini, 21-year-old son of the Duke, left

Italy yesterday morning for a visit to the United States. The Italian

ambassador to the United States

and his wife are staying with the

ambassador to the United States

and his wife are staying with the

As the
Ticks On
Nations P

A Monthly Report for the International Investor

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FOCUS

Funds Debate Incentive Pay

Tony Barnes of Korn Ferry. "There's sort of a Big Bang going on in fund management" in terms of how and managers are compensated, observed Tony Barnes, managing director of Korn Ferry International in London, the executive search firm. "A trend toward performance-related compensation has emerged."

While performance-linked compensation is widely accepted in the United States, the idea grates on management in some British firms. "Maybe the British are a bit old-fashioned and stuffy about it," suggests Nick Rain, who oversees about 10 funds for GTI Unit Managers Ltd.

British compensation was bound to go up given the growth in assets under management. The amount of money in British unit trusts has grown to \$47.8 billion from just under \$5 billion in 1980, according to the Unit Trust Association.

These days a junior fund manager responsible for a £100 million portfolio may command an annual salary of £50,000, according to London headhunters. A seasoned veteran with a proven record would fetch considerably more, and, at some firms, be eligible for equity stakes or share options.

The competition for talent has put strains on the practices of more tradition-bound firms. Old-line investment houses have typically recruited university graduates, trained them and moved them up through the ranks. A newly trained fund manager at these firms may earn £30,000 a year.

"Home-grown talent tends not to cost as much," says an executive at a big London-based unit trust group. "The system fosters loyalty, team spirit and commitment."

He expressed disdain at cases where a firm brings in outsiders at "silly salaries" to fill specialized positions. "It's not our style to promote prima donnas," he says.

But along with higher salaries, firms increasingly are offering special rewards to managers. These incentives can be seen in two ways. First, they help firms attract and keep the best talent. Second, they encourage managers to bring more performance from their portfolios.

INCENTIVE PLANS can be a matter of applying detailed formulas or involve a less formal evaluation by management. At Allied Dunbar Unit Trusts, a plan was introduced this year under which fund manager can qualify for a bonus of up to 30 percent of annual salary by meeting several performance criteria, says Alex Lyle, a senior investment manager at the firm. The evaluations are carried out annually.

Graham Joblin, director of Gartmore Fund Management Ltd., says bonuses are available to managers decided by the board to have made substantial contributions to the firm during the year.

While few industry executives dispute the merit of compensating talent, some are wary of closely linking bonuses to fund performance.

People outside like to see fund managers paid by performance because they think it is a good incentive," acknowledges Douglas Hunter, investment director for Aetna Unit Trust Ltd.

"I find the bonus is a bit dangerous," he says. "It doesn't gain that much more productivity. I would rather be paid well consistently, and if I don't perform, then I'm out."

Tim Edwards, chairman of Kleinwort Barrington Ltd., says bonuses based on how well a fund performs can be unfair if they fail to allow for fluctuations in market or economic conditions. For example, a manager who guides a fund specializing in technology stocks would lose out on bonuses if economic conditions depressed that sector of the market, even though he may have been adept at limiting the damage to his portfolio.

A graver issue for investors is whether performance-linked compensation encourages their fund manager to take more risk than he would otherwise in the hope of achieving impressive gains. Mr. Tram of GTI Unit Managers says the debate in the industry focuses on what is the best way to compensate a fund manager without encouraging the manager to go after short-term, speculative gains.

A possible solution, says Mr. Barnes of Korn Ferry, is to design compensation packages so that extra pay for superior work is based on performance over a longer interval of time. Under a rolling compensation structure, the payout might come as often as once a year but be tied to performance over two or three years.

An arrangement of that kind would have at least two advantages. It would encourage managers to pursue longer-range strategies and it would diminish

Continued on page 11

Offshore Funds Cash In on Pacific Basin Plays



Charles Waller

By John Meehan

OFFSHORE FUNDS that specialized in smaller Asian markets and Australia turned in a strong performance in the third quarter, as managers of other portfolios struggled to overcome the prevailing uncertainties in the larger world markets.

In the three months ended Sept. 30, the 12 offshores that invest in a range of Southeast Asian markets were up 18.32 percent. But it was clear from the results of single-country funds that the biggest gains were made in Taiwan and Hong Kong, two of Asia's so-called "blue dragon" markets.

Funds that specialized in Hong Kong generated a total return of 25.86 percent, while the two funds that focused exclusively on Taiwan were up 68.28 percent, according to Lipper Analytical Services, which tracks 482 offshore funds. Australian funds showed a return of 27.38 percent.

By contrast, European funds generated a return of 11.17 percent in the same period, while funds that

The quarter's stars: Taiwan, Australia and Hong Kong

specialized in U.S. equities were up a mere 3.71 percent. Still, the big disappointment occurred in Japan, where nagging doubts about the vitality of the Tokyo Stock Exchange took its toll. Average returns on Japanese funds were up only 6.94 percent.

Bond funds, in general, had a dismal quarter. The 197 fixed-income portfolios tracked by Lipper Analytical generated an average negative return of almost 1 percent. The weakness was symptomatic of the bearish mood that has descended on bond markets worldwide because of rising interest rates.

The quarter's best performer, the Taiwan (R.O.C.)

Fund, generated a total return of 70.43 percent in the latest quarter. Its sister portfolio, the First Securities Investment Trust, a New Taiwan dollar-based fund, was ranked second at 66.14 percent.

The funds are just two of a handful of funds open to foreigners who want to invest in the Taiwan market. The Taiwanese government prohibits direct foreign ownership of stocks.

Single-country funds that invested solely in other tiny Asian markets were less fortunate. Markets in the Philippines and South Korea ran afoul of the political problems that arose in the latest quarter. Likewise, the seven funds that specialize in the Singapore-Malaysia market had a return of less than 5 percent.

"It was an extraordinary quarter," acknowledges Steven Champion, president of the International Investment Trust Co., a Taipei company that manages both Taiwan funds.

Indeed, despite their strong performance, both funds lagged behind the overall market. The Taiwan Stock Exchange index rose 170 percent in the latest quarter and was up more than 300 percent in the first nine months of the year.

Mr. Champion attributed the rally to promising economic fundamentals, but also to excessive liquidity that saw too much money chasing too few stocks.

The difficulty in obtaining shares in financial companies, many of which are owned by the government, best explains why the funds could not match the market's performance, according to Mr. Champion.

Financial stocks account for 45 percent of the market's weighted index. But Mr. Champion only had 12 percent of the \$403 million Taiwan Fund in financial shares. "We try to diversify across all sectors of the economy," he says. "But it's very hard to duplicate the market."

Some of the fund's best performers during the quarter included Cafe Construction and China Steel. Cafe Life Insurance was another strong stock. Whether the rally will continue in the final quarter is uncertain, Mr. Champion says. The market is already showing signs of fatigue, he says, and given the market's recent speculative edge, many experts anticipate a correction. "Just as nobody knew what the

Continued on page 8

On the Move In Manila

By Patrick L. Smith

Hong Kong

FOR JAMES MELLON, investing in the Philippines started almost as an accident. On a vacation in Manila two years ago, the managing director of Thornton Management (Asia) Ltd. simply wandered into the Manila Stock Exchange one hot, uneventful afternoon.

"There wasn't a sign of activity — no one in sight," the 30-year-old Mr. Mellon recalls. "The last share transaction listed on the board was dated 1983. The number of active brokers had gone from 300 to two."

Intrigued, and with a slight sense of living on the edge, Mr. Mellon put \$20,000 of his own money into San Miguel and Philex, the blue-chip brew-

er and equally well-regarded mining company. "It took six weeks for Vickers da Costa to fill the order," Mr. Mellon says.

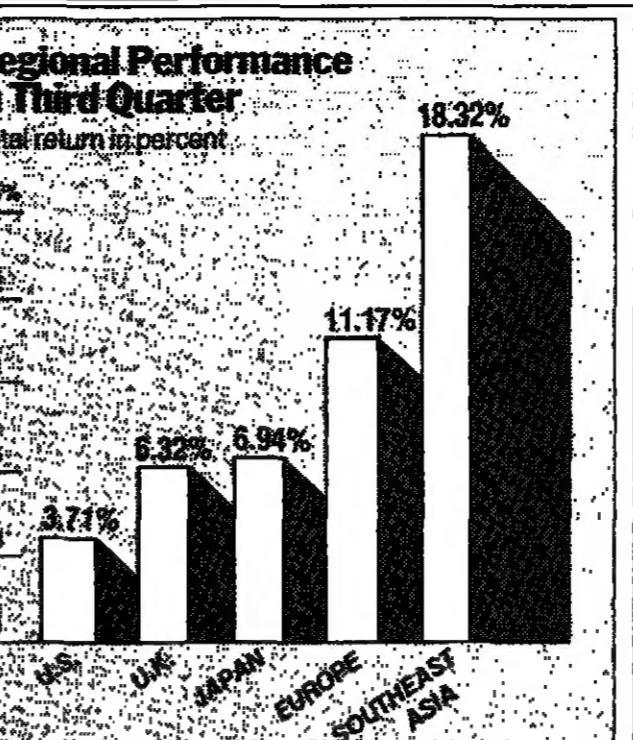
A month later, Thornton's Pacific Investment Fund was reorganized as a mutual fund. And it soon began to invest in the Philippines for the first time.

Continued on page 9

**The political
uncertainties
don't deter
James Mellon**



James Mellon in the offices of Thornton Management (Asia) Ltd. in Hong Kong.

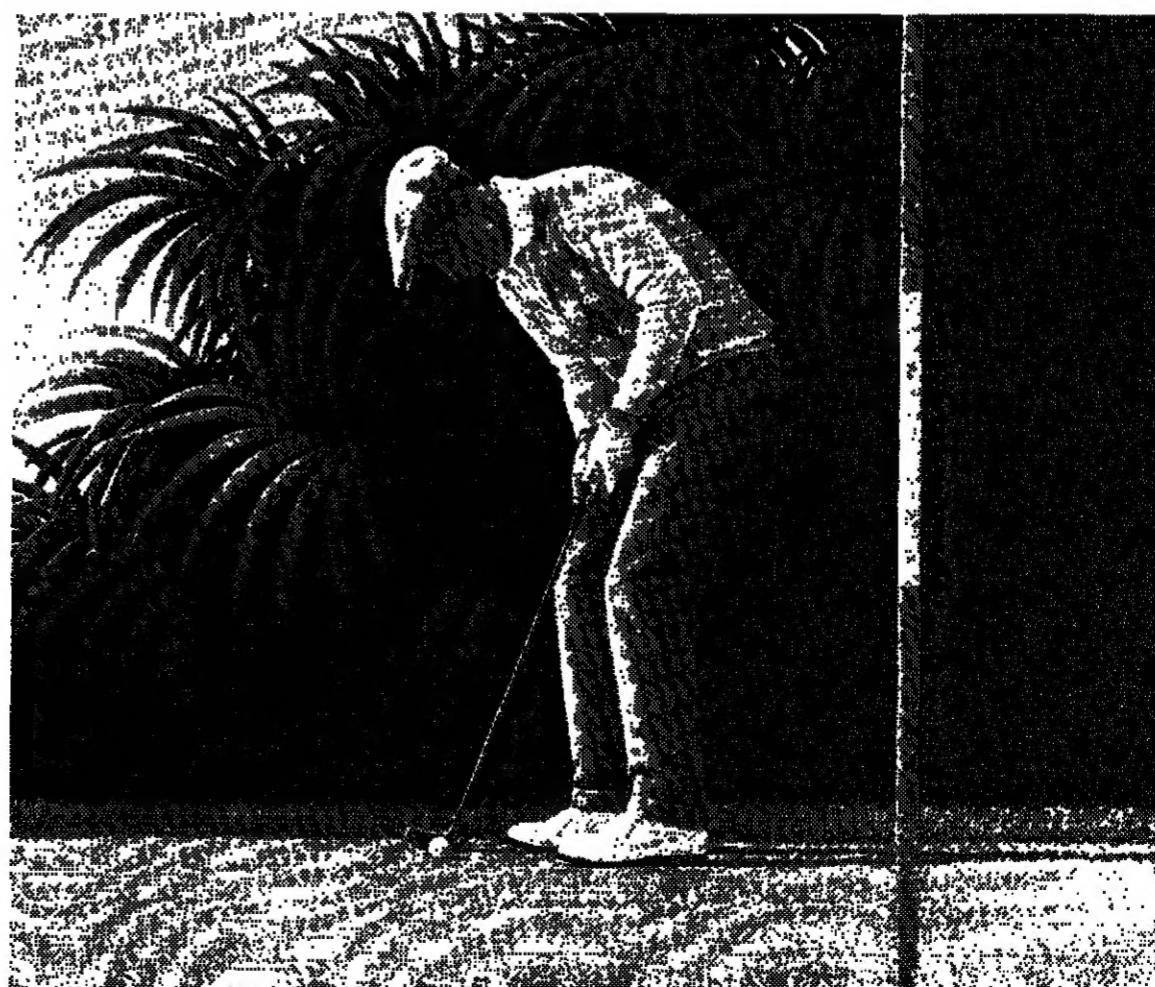


Top 10 Offshore Funds In Third Quarter

Taiwan (R.O.C.) Fund	70.43%
First Securities Investment Trust	66.14%
Thornton Hong Kong & China Gateway Fund	48.74%
Gartmore Oriental Ventures	47.60%
Australian & General Exempt Fund	46.62%
Thornton Little Dragons	45.42%
Mercury Selected Trust, European Opportunities	45.38%
Schroder Portfolio Selection, Gold Fund	42.60%
GAM Hong Kong	38.52%
Schroder Portfolio Selection, Australian Fund	37.61%

Source: Lipper Analytical Services Inc.

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OFFSHORE RANKINGS

Pacific Plays: A Taiwan Fund Takes The Honors

Continued from page 7

upsides were going to be," Mr. Champion says, "nobody knows where the downside could be."

Among Australian funds, M&G's Australian & General Exempt Fund was the best performer with a return of 46.62 percent in the latest quarter.

Portfolio manager David Hutchins notes that 75 percent of the fund's assets are invested in natural-resource stocks, with the remainder in selected industrial issues. He also credits the appreciation of the Australian dollar, which advanced strongly after the government unveiled a favorable budget package in early September.

Mining stocks, such as Western Mining, were among his best performers. But he says this had less to do with the continued fascination with gold shares than a "belief that commodity prices will take off." As for non-mining issues, he says Elders DXL, which owns stakes in Fosters, the brewer, and Broken Hill Properties, also proved a strong gainer.

Gold funds also proved resilient, up 21.47 percent during the third quarter. Schroder's Portfolio Selection Gold Fund was the best performer, generating a return of 42.6 percent.

ONCE AGAIN, the success of gold portfolios had little to do with precious metal prices. Instead, David Smith, who manages Schroder's gold portfolio, says gold stocks continued to benefit from investors who grew weary of the prolonged rallies in major markets and sought some diversification.

"I don't see gold prices doing much," he says. "But there's been a nice, steady flow of money into gold stocks."

About 40 percent of Mr. Smith's portfolio is invested in South African shares. Earlier this year, many gold funds were reluctant to invest in South Africa because of the political uncertainties. Moreover, political pressure created by the growing anti-apartheid sentiment, especially in the United States, forced many investors to divest their South African holdings.

Mr. Smith says that he is "not blind to the political uncertainties" but notes that his fund's stated objective is to invest in gold shares. South Africa, he says, offers the best value. In fact, he says he has been selling some of his Australian stocks, which account for 28 percent of the fund's assets, during the market's recent rally.

Mr. Smith says most of the major South African mines are included in his portfolio. He also owns shares in Essoft, a recent issue. "They all have been creeping up," he says. "But there are no big winners." In Australia, Mr. Smith says Parings Mine & Exploration and Whim Creek have proven strong performers.

OVERALL LEADERS

Total return in dollars for periods ending Sept. 30, 1987

Year to Date

Taiwan (R.O.C.) Fund Int'l Investment Trust Co.	159.75%
First Securities Invest. Int'l Investment Trust Co.	152.39%
Australian & Gen'l Exempt M&G Group	135.87%
Save & Prosper Gold Save & Prosper Mgt. (Jersey)	133.42%
Gartmore Japan Warrant Gartmore Fund Managers	126.88%
Gold Exempt (A.C.) M&G Group	118.56%
Gold Exempt (Inc.) M&G Group	117.42%
Barclays Uni-Australian (Inc.) Barclays Unicorn Int'l	105.76%
Barclays Uni-Australian (A.C.) Barclays Unicorn Int'l	105.46%
GAM Pension & Charity UK Global Asset Management	104.05%

Two Years

Gartmore Oriental Ventures Gartmore Fund Managers	513.71%
JF Philippine Trust Jardine Fleming	431.89%
Taiwan (R.O.C.) Fund Int'l Investment Trust Co.	352.23%
JF Pacific Securities Jardine Fleming	349.93%
JF Pacific Income Jardine Fleming	349.16%
Espac UBS/intraq	313.55%
Lazard Bros. Far Eastern Lazard Securities (Jersey)	276.20%
JF Japan Trust Jardine Fleming	268.80%
Thomson Hong Kong & China Thomson & Co.	238.77%
JF Hong Kong Trust Jardine Fleming	236.38%

In light of the specialized nature of the quarter's most successful funds, Mercury's Selected Trust European Opportunities Fund seems an odd addition to the list of the top 10 funds.

Consuela Brooke, director of Mercury Asset Management Holdings, says the fund proves it is a fallacy "that you can't invest in Europe anymore." She adds, "These markets are by no means dead."

About 30 percent of the fund's assets are in Portugal, and another 30 percent in Switzerland, mostly warrants on registered shares. Spain is her next favorite market and accounts for 20 percent of the fund's holdings.

The fund underweights the larger European markets. British shares make up no more than

12 percent of the portfolio. West German and French shares account for less than 10 percent.

Among individual stocks, Ms. Brooke says some of the fund's strongest performers are in Portugal and include Cobra, which makes construction materials, and Losour, a land developer.

In the United States, managers who bet on companies positioned to cash in on a vigorous economy and a lower dollar fared well.

"We continued to have heavy investment in economically sensitive stocks, with a major focus on technology," says Joseph McNay of Essex Management, who guides Global Asset Management's Boston Fund. It is the best performer this year among the more than 64 offshore funds that specialize in the U.S.

stocks, with a return of over 70.7 percent in the first nine months.

"Our biggest single focus is the current level of the dollar," Mr. McNay says. The companies in which he invests have become more competitive as the dollar has weakened, though he believes the U.S. currency's decline is largely over. Many of the companies he has chosen to invest in have been down and restructuring their operations during the preceding period of dollar strength. Now, they are profiting from more efficient operations and, in some cases, a wave of product introductions.

Big gainers in the Boston Fund's portfolio include technology stocks such as Apple Computer, Intel, Motorola and Hewlett-Packard. The fund also has done well in so-called cyclical growth stocks, especially chemical

Currency Funds: Third Quarter

Total return in dollars

Schroder Portfolio Selection, Sterling Fund	5.30%
Bermuda Int'l Currency Fund, U.S. Dollar/Sterling Class	5.00%
Thornton Liquid Reserves, Sterling Class	4.96%
Barclays Unicorn Multicurrency, Sterling Class	4.62%
Baring Currency Fund, Sterling Class	4.06%
Guinness Flight Global Strategy, Sterling Money Fund	4.03%
Henderson Global Strategy, Sterling Cash Shares	4.00%
Old Court Int'l Reserves, Australian Dollar Shares	3.95%
Old Court Currency Fund, Australian Dollar Shares	3.92%
Henderson Managed Invest., Sterling Cash Sub. Fund	3.84%



Source: Lipper Analytical Services

A Tranquil Period for Currencies

OFFSHORE CURRENCIES among the chief beneficiaries of the dollar's steep decline last year, saw their performance sharply curtailed in the latest quarter by the relative tranquility of foreign exchange markets and the increase in interest rates worldwide.

Funds denominated in sterling generated a total return of 3.29 percent in the third quarter, according to Lipper Analytical Services. Japanese yen funds were up 2.35 percent while dollar-denominated funds showed a return of only 1.24 percent. Deutsche mark funds turned in an equally disappointing quarter with a total return of just 1.1 percent.

The 152 deposit funds tracked by Lipper Analytical had average returns of 1.8 percent. Deposit funds function much the same way as money-market funds. Assets generally are invested in short-term currency deposits and money-market instruments in the same currency as the fund's shares.

Fund management companies typically offer a family of deposit funds in various currencies. This allows investors to switch among currencies according to their needs and personal views on the foreign exchange market. In the latest quarter, however, there were no clear winners.

Managed currency funds did slightly worse.

The 45 funds measured by Lipper Analytical showed an average return of 1.77 percent despite their typically more aggressive management approach.

Managers of these funds generally switch among financial instruments in various currencies to maximize gains in value of their fund's dollar-denominated shares.

"It's no mystery. Currency funds do well when the dollar is declining," says the director of a London-based managed fund.

Indeed, since last February, when finance ministers and central bank governors from leading industrial nations devised the so-called Louvre Accord to stabilize the dollar, an uneasy calm has settled upon currency markets. In the absence of volatility, no currency has sustained a steep gain in value.

Moreover, the apparent decision by the U.S. Federal Reserve, as well as monetary authorities in Europe and Japan to pursue less accommodative interest rate policies has severely limited the returns on fixed-income investments.

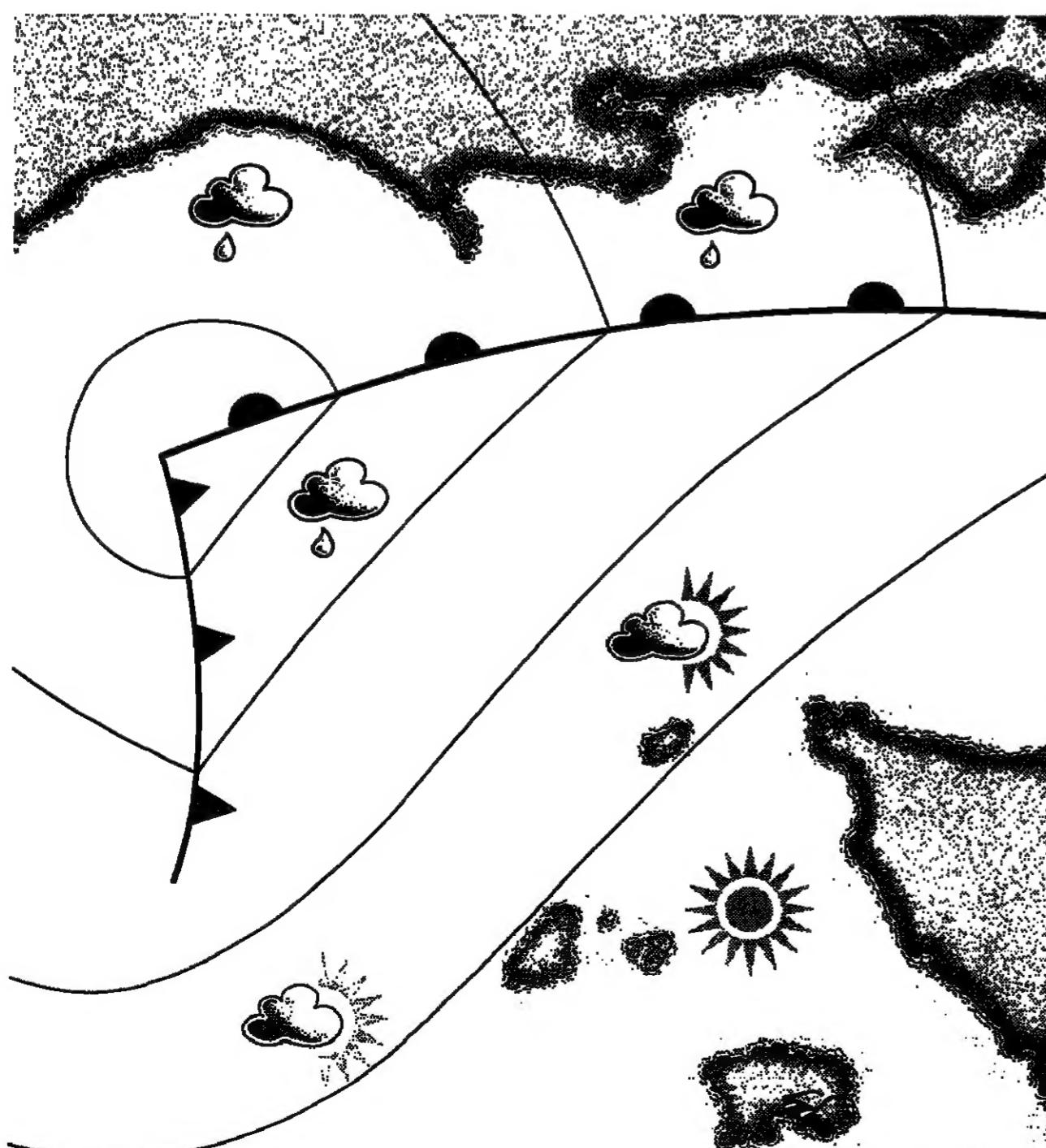
Robin Corner, the manager of Schroder Portfolio Selection Sterling Currency Fund, blames higher short-term interest rates in Britain for the relatively disappointing performance of his fund. Although Schroder's sterling deposit fund was the quarter's best performer, it generated a return of just 5.3 percent.

As for the future, Mr. Corner believes sterling rates will continue to rise, pushed higher in response to the Fed's attempts to nudge rates higher in support of the dollar. "I certainly can't see rates coming down for the moment," he says.

John Meahan

PROFILE
Thornton

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OFFSHORE

Portfolio Update: Mixed Views on the U.S.

The big bets are on U.K., Far East and European shares.

By Marybeth Nibley

LONDON BRITISH SHARES and selected Far Eastern and European markets look attractive, but there are some doubts about U.S. stocks. That seems to be the message from three investment advisers who were asked to construct a portfolio of offshore funds for an investor with \$10,000.

The model portfolios above were designed for a risk-oriented investor who emphasizes growth over income and is comfortable with only moderate risk. The breakdowns reflect the advisers' current expectations for markets over the next six to 12 months. Figures do not take into account commissions, adviser fees or taxes.

There were few dramatic shifts from the portfolios by the same advisers recommended in the April issue of Personal Investing. All still include substantial exposure to funds specializing in Far Eastern, European and British shares. There is, however, a difference of opinion on Wall Street's prospects.

Hill Samuel raised the amount in its Crossbow Fund, which specializes in Far Eastern equities and convertible securities, to \$10,500 from \$6,250.

Hoare Govett held its exposure to Japanese securities steady and took some profits on its holdings in the Thornton Tiger Fund, reducing its stake to \$7,500 from \$7,500. The Tiger Fund, which invests in Asian markets, was up more than 15 percent in the third quarter alone.

Kleinwort Grieveson raised its bet on Asia's emerging markets by increasing holdings in the Bar-Octopus Fund to \$7,500 from \$5,000. Japanese exposure held steady at about \$5,000.

The two Pacific markets that seem to have caught the advisers' interest are Hong Kong and Australia. Ian G. Stephens, investment director of Hill Samuel

PORTFOLIO 1

Hill Samuel Investment Management Int'l.	
Hill Samuel Overseas Fund	\$12,000
Hill Samuel Int'l Bond Fund, Dollar Class	\$7,000
Hill Samuel European Equity Fund	\$9,000
Hill Samuel Int'l Bond Fund, Sterling Class	\$2,750
Hill Samuel Crossbow Fund	\$10,500
Hill Samuel UK Growth Fund	\$6,250
Hill Samuel Int'l Currency Fund, Dollar Class	\$2,500

Investment International, says he has a bullish attitude toward Hong Kong because of depreciation of the Hong Kong dollar, which is linked to the U.S. dollar. The currency weakness should enhance Hong Kong's export opportunities, he says.

Hong Kong government officials recently estimated that the economy would bound ahead at a 12 percent annual pace this year, double the rate initially forecast. "Share prices should rise quite substantially in the next nine months," says Mr. Stephens.

As for Australia, Mr. Stephens described himself as "quietly confident." Australian gold-related shares should benefit from the continuing uncertainties in South Africa, and generally strong stock market there. Hoare Govett (Channel Islands) Ltd.'s portfolio also stands to profit on these shares through its \$2,500 holding in the Save & Prosper Gold Fund.

All three portfolios took a positive stance on the British market. Hoare Govett puts a hefty \$15,000 of the \$50,000 into a Fidelity fund specializing in U.K. equities and convertibles. In April, the firm had earmarked \$12,500 for the Hambro Special Situations Fund. In April, it had \$5,000 in the Hambro Growth Fund.

Kleinwort's portfolio maintains a considerable exposure to international bonds, which will give it an opportunity to cash in on any easing of interest rates in key markets or favorable currency shifts. Peter Saunders, head of the firm's private client affairs, says the firm foresees a "mild technical recovery" in bonds. Hill Samuel scaled down its portfolio's exposure to dollar bonds, to \$7,000 from \$10,000 in April.

PORTFOLIO 2

Hoare Govett	
Fidelity Performance Portfolios UK Fund	\$15,000
Mercury Selected European Fund	\$5,000
Jardine Fleming Japan Trust	\$15,000
Jardine Fleming Pacific Income Trust	\$5,000
Thornton Tiger Fund	\$5,000
Mint Limited	\$2,500
Save & Prosper Gold Fund	\$2,500

an, the firm's director, referring to a recent wave of rights offerings and new issues.

Peter Saunders of Kleinwort Grieveson agrees. He sees economic fundamentals will again start addressing themselves in the British market.

"The market has had a setback with all the money being raised, including the big British Petroleum offer," he acknowledges. "On the more positive side, corporate news is good. If you look at other world markets, the U.K. market is inexpensive, which we think puts a downside limit on it."

Two of the three advisers exhibited some doubts about the U.S. outlook.

"We don't like the United States," says Mr. Bu-

chanan of Hoare Govett. "We don't like the currency risk."

The hope of lower interest rates has been dashed.

Kleinwort Grieveson has somewhat more confidence, but prefers to bet on smaller American companies.

Mr. Stephens of Hill Samuel remains bullish. He expects the dollar's decline to help U.S. companies regain competitiveness.

The odds are that inflation will remain in check as the economy expands moderately over the next year, he adds.

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PROFILE

Thornton's Manila Play

Continued from page 7

time, acquiring its first shares in Manila, \$500,000 worth of San Miguel.

So began a commitment in the Philippines that now totals roughly \$100 million, spread among 14 Thornton funds. Mr. Mellon's pride is the \$11.3 million Philippines Redevelopment Fund, an offshore fund that was launched in June 1986. Since the start of the year, the fund has generated a total return of 69 percent, according to Lipper Analytical Services.

That record punctuates a nine-year career in fund management, which started immediately after Mr. Mellon graduated from Oxford in 1978 after having studied philosophy, politics and economics. After spending two years in Hong Kong for G.T. Management and several more in California, Mr. Mellon followed Richard C. Thornton from G.T. back to Hong Kong in early 1984, when Mr. Thornton set up his Asian headquarters.

Part of the gain in Manila, Mr. Mellon acknowledges, was a simple matter of being in the right market at the right moment.

Thornton paid 16 pesos a share for San Miguel back in 1985, 15 centavos for Philex and 38 pesos for Philippine Long Distance Telephone; the Manila index stood still at 140.

The rewards, of course, have been extraordinary. After adjustments for share splits, those three issues went up to 23 pesos, 53 centavos and 320 pesos, respectively. In early August, the Manila commercial and industrial index hit a peak of 1,250.

After the final two-month spurt that was characterized by virtually indiscriminate buying, Manila has now given back almost half of its two-year gain. The attempted military coup and lingering uncertainty about President Corazon C. Aquino's administration has clearly unnerved many investors in recent weeks. Yet, Mr. Mellon is undismayed.

"It may sound naive, but I think Aquino will serve out her term," Mr. Mellon says, sunburned from a mid-September trip to the capital. "Each test of strength makes her a better administrator."

Given the current rate of earnings growth — Mr. Mellon expects corporate profit growth to average between 30 percent and 40 percent in the coming year — Manila remains a relatively cheap market, with a prospective price-earnings multiple of 12. The resistance, he says, will come at around 1,250 on the commercial and industrial index, since so many of the summer's speculators bought in at the peak.

"The market's waffling at the moment," Mr. Mellon says, "but the worst of the drop is behind us."

Reflecting this view, Mr. Mellon has been moving the fund back into equities since early September. How quickly it will again be fully invested depends on price, since he says his buying programs are designed to take account of further market drops.

The emphasis this time will be different: San Miguel and Philippine Long Distance Telephone previously accounted for about 40 percent of the overall portfolio. The rest was spread more or less evenly among the market's handful of blue chips.

Reflecting Mr. Mellon's radically bullish view of the prospects for Philippine gold and copper producers, mining stocks — Benguet, Philex and Lepanto — will account for more than half his portfolio, he says, compared to their previous weighting of 15 percent or so.

He is also optimistic that the government will take steps to alleviate the market's tight supply of quality stocks, a perennial problem among Asia's small markets.

Neither do many observers exhibit the same confidence that Mr. Mellon professes in Mrs. Aquino's ability to turn around her deeply divided and, some would say, ineffectual administration. For him, however, the answer to all this lies in share prices themselves.

The market is a precursor," Mr. Mellon asserts. "A significant rise in prices has got to be a signal that something important is happening in the economy."

Mr. Mellon has played the market almost perfectly since the day the fund was launched. With only \$10,000 in subscriptions when Philippines Redevelopment was first offered, the fund grew to almost \$20 million in July, remaining fully invested throughout the market's rally.

Just before the market turned two months ago, however, Mr. Mellon cashed in half of his holdings. The reason was simple, he says. The rally in San Miguel had quickly come to be dominated by the half dozen oil stocks listed on Manila's twin exchanges. The oils are perennial late-cycle stocks in the



The Associated Press
Mellon calls Manila's downturn a healthy correction.

Manila market," he says. "When local institutions are recommending them, the endgame has come."

As a result of that move, Mr. Mellon spared investors in Philippines Redevelopment a lot of pain. In the latest quarter, the fund had a negative return of 6 percent, according to Lipper Analytical. By contrast, the market is down 45 percent from its summer-time peak.

Like other analysts and fund managers, Mr. Mellon views the market's recent downturn as "a normal, healthy correction" in a much-overheated environment. He now sees an upward potential of 30 percent to 40 percent in prices before the end of the year.

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The emphasis this time will be different: San Miguel and Philippine Long Distance Telephone previously accounted for about 40 percent of the overall portfolio. The rest was spread more or less evenly among the market's handful of blue chips.

Reflecting Mr. Mellon's radically bullish view of the prospects for Philippine gold and copper producers, mining stocks — Benguet, Philex and Lepanto — will account for more than half his portfolio, he says, compared to their previous weighting of 15 percent or so.

He is also optimistic that the government will take steps to alleviate the market's tight supply of quality stocks, a perennial problem among Asia's small markets.

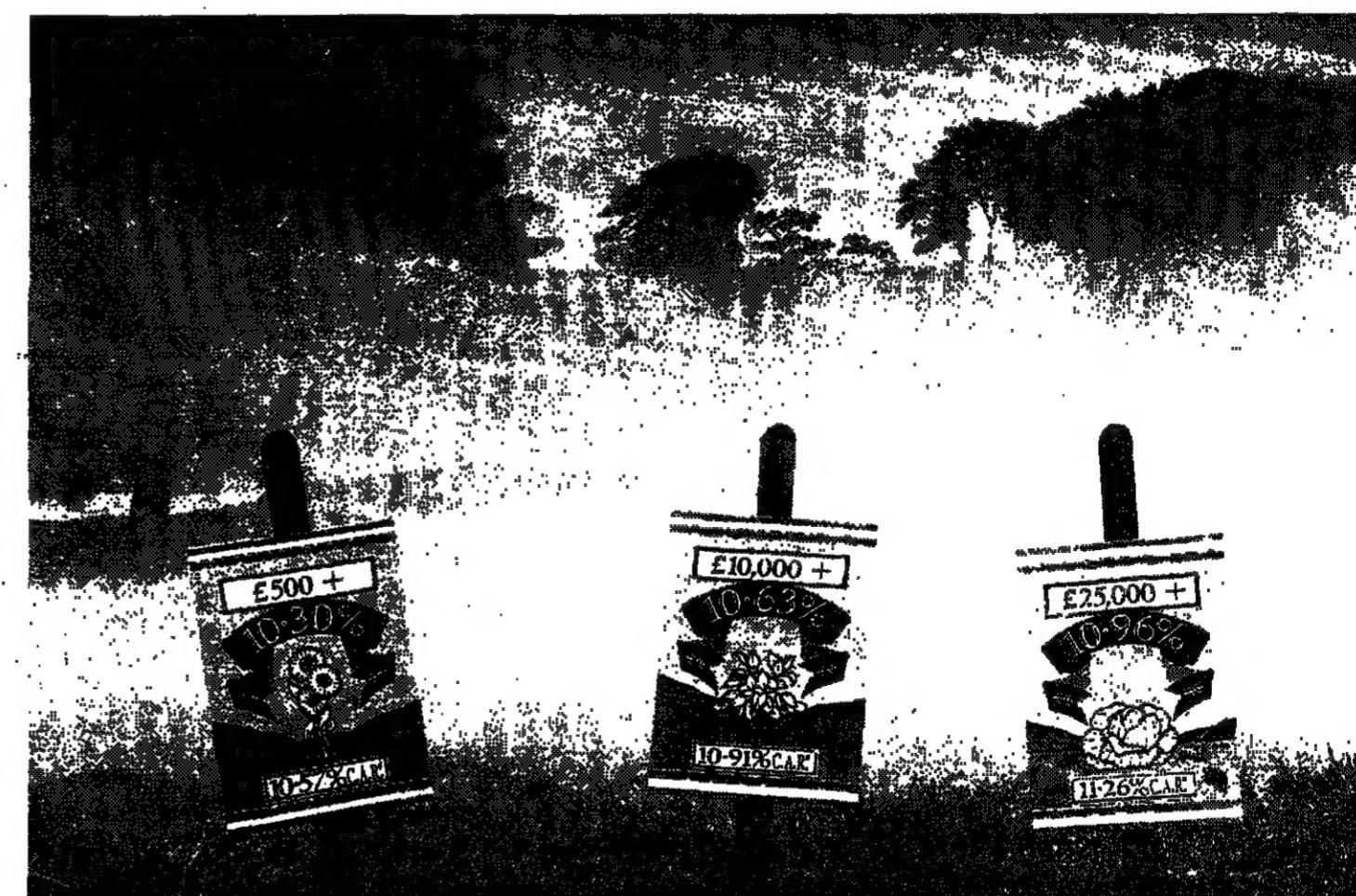
Neither do many observers exhibit the same confidence that Mr. Mellon professes in Mrs. Aquino's ability to turn around her deeply divided and, some would say, ineffectual administration. For him, however, the answer to all this lies in share prices themselves.

The market is a precursor," Mr. Mellon asserts. "A significant rise in prices has got to be a signal that something important is happening in the economy."

Mr. Mellon has played the market almost perfectly since the day the fund was launched. With only \$10,000 in subscriptions when Philippines Redevelopment was first offered, the fund grew to almost \$20 million in July, remaining fully invested throughout the market's rally.

Just before the market turned two months ago, however, Mr. Mellon cashed in half of his holdings. The reason was simple, he says. The rally in San Miguel had quickly come to be dominated by the half dozen oil stocks listed on Manila's twin exchanges.

The oils are perennial late-cycle stocks in the



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MUTUAL FUNDS

Newsletter Gurus Offer to Bring Order to the Fund Chaos

By Joan Westreich

KEN WEBER'S STORY of how he became a newsletter writer is short. After a 14-year career as a performing hypnotist, he found himself with a lot of money. Learning how to invest it led eventually to starting Weber's Fund Advisor, his monthly newsletter.

Similarly, Mr. Weber believes in keeping his advice short and sweet. "People don't want a lot of information," he says. "They just want to know where to put their money."

Their desire for simplification is understandable given the bewildering array of funds. In the five years since the bull market began, the number of mutual funds has quadrupled to more than 2,100. Indeed, the industry hatches a new fund at the rate of one a day.

The resulting confusion swelled the ranks of newsletter advisers. New entries proliferated, and more established letters that covered stocks and bonds added features about mutual funds. Five years ago, only a handful of newsletters were around to advise mutual fund buyers. Today, no fewer than 70 vie for subscribers.

"Everyone is looking for a guru," observes Mark Hubert, editor and publisher of the authoritative Hubert Financial Digest, a monthly that rates newsletter performance. He tracks the performance of about 35 newsletters that offer advice on funds. The ratings are limited to newsletters that have been around at least a few years and make clear buy and sell recommendations.

As a group, the results have not been spectacular when measured against the overall market's performance, notes Mr. Hubert. Only a handful of newsletters have done better than the 26-percent total return on the Standard & Poor's 500-stock index over the past seven years, he says.

But the funds themselves have not done so well at beating the market. In the first half, notes Hubert, the average equity mutual fund returned only 21.1 percent compared with the S&P's 27.4 percent.

The range of the newsletters advising fund buyers defies generalization. The field encompasses Mutual Fund Forecaster, which reports a circulation of 260,000, as well as upstart ventures with only a few hundred subscribers.

Typically published monthly or bi-monthly, they may provide model portfolios, ratings for a range of mutual funds, excerpts from other financial letters and general financial advice and features. Some cram their four-to-12 page letters with charts and graphs while others provide interim bulletins and telephone hotlines that give out advice at any hour of the day or night.

Some editors have traditional professional backgrounds in brokerages or money-management firms. Others, like Mr. Weber, boast more exotic stories. Peter Eliades tells of previous careers that included playing piano in bars and acting in "off Broadway" musical comedies. Now, he is editor of Stockmarket Cycles, a widely read newsletter noted for its analysis of stock market trends.

Most newsletters offer samples or trial subscriptions so readers can get a sense of the philosophy and approach. Mr. Hubert

says a potential subscriber should gauge whether the newsletter is easily understood.

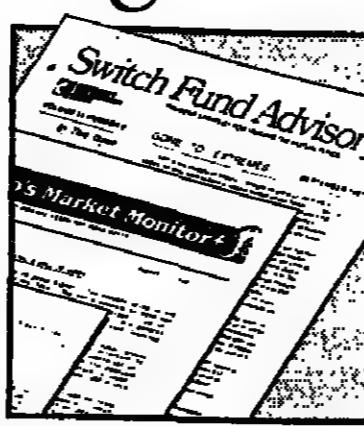
But the most important factor, he says, is whether the degree of risk in the newsletter's approach seems appropriate. Using a statistical measure, Mr. Hubert looks at the volatility of a newsletter's performance over long periods of time as a gauge of risk. If two letters have the same performance, Mr. Hubert would pick the one with the least volatile returns.

Most advisers' approaches depend on some form of analysis of trends in the prices of funds or in the overall stock and bond market, though some editors emphasize economic factors as well.

Many of the trend-following strategies involve tracking how funds perform against one another, trying to spot the ones that are gathering upward momentum. So-called technical indicators, such as 39-moving averages, are a favorite tool, but some editors use more complex statistical approaches.

James Stack, a former IBM research project manager and inventor, augments his technical analysis with information on Federal Reserve activity and short-term interest rates. Mr. Stack's InvesTech newsletter has taken a cautious posture lately, and his model portfolio at the end of September was 75 percent in money market funds and 25 percent in gold funds.

"All in all, this decision hasn't been a bad one," he says. "We locked in a 36-percent gain for 1987 and avoided the exhilarating gyrations and nervous sell-offs of the past couple of months." □



HONOR ROLL

The 10 best-performing mutual-fund newsletters tracked by The Hubert Financial Digest during the 18-month period ending June 30, 1987. Performance figures represent the average return on the newsletter's recommendations. In cases where more than one portfolio is recommended, the average performance of the portfolios was calculated.

Newsletter	Frequency	Cost	Performance
Margo's Market Monitor	Biweekly	\$125 in U.S. \$150 overseas	79.17%
InvesTech Mutual Fund Advisor	18 issues per year	\$150 in U.S. \$177 overseas	73.12%
Wellington's Worry-Free Investing	Monthly	\$129 in U.S. \$144 overseas	67.65%
Telephone Switch Newsletter	Monthly	\$117 in U.S. \$137 overseas	67.29%
The Mutual Fund Strategist	Monthly	\$127 in U.S. Same overseas	65.72%
Weber's Fund Advisor	Monthly	\$89 in U.S. \$109 overseas	54.24%
NoLoad Fund X	Monthly	\$85 in U.S. Same overseas	48.87%
Stockmarket Cycles	18 issues per year	\$198 in U.S. \$210 overseas (Specialty fund portfolio)	41.19%
The Mutual Fund Monitor	Monthly	\$125 in U.S. \$140 overseas	40.88%
Mutual Fund Forecaster	Monthly	\$49 in U.S. \$64 overseas	40.06%

Fidelity Followers Keep It in the Family

MARGO Ballantine exhibits the adventurousness that marks many newsletter entrepreneurs. She has sailed across the Atlantic in a 32-foot sloop with her husband and started a quarterly publication on herbs. Then six years ago, she diversified into the financial field with Margo's Market Monitor, a bi-weekly newsletter that evaluates mutual funds offered by the giant Fidelity group.

She is not alone in this endeavor. The latest count shows a half-dozen well-known publications that devote themselves exclusively to helping investors decide which of Fidelity's 100 or so funds to buy or sell. Countless others dabble in it as a sideline.

Newspapers that focus on a single family of funds are not unique to Fidelity. But with a potentially immense readership at stake, it is hardly a surprise that the company's funds receive so much scrutiny.

Fidelity manages over \$85 billion spread among 4 million mutual fund accounts.

Indeed, the huge Boston-based company has taken the notion of a family of funds further than any other mutual fund group. There is virtually no sector of the stock, bond or money markets for which Fidelity has not created a fund.

Investors can buy funds that specialize in utilities, technology companies, Pacific basin markets, New York municipal bonds and out-of-favor stocks.

Critics have argued that the creation of ever-more-focused sector funds runs counter to one of the major reasons for purchasing a fund. For years, funds were touted as an inexpensive way for an investor to acquire a diversified portfolio whose assets are managed by a professional. Sector funds, however, essentially force individual investors to decide how to deploy assets.

George Foot, whose Mutual Fund Monitor newsletter includes Fidelity funds in its recommendations but does not use the group exclusively, says the narrowly focused funds have their perilous. "They make conservative investors into hour-by-hour speculators," he says.

Still, the ease of switching among the Fidelity funds remains one of the big attractions of the group and a major marketing point for the newsletter that specializes in its funds.

Eric Kobren, a young marketing director at Fidelity, was one of the first to spot a business opportunity in the proliferation of funds.

Two years ago, he quit his job and started Insight, which helps Fidelity investors sort out the differences among the various funds and the implications for their strategy.

"Obviously, my background played a large part," he says of his decision to start the newsletter to Fidelity offerings. "But frankly, Fidelity has so many funds that it causes the most confusion."

Charlie Hooper is another veteran Fidelity watcher. His Mutual Fund Strategist eschews the conventional buy-and-hold philosophy so often applied to mutual fund investing. Instead, he favors active switching among Fidelity funds and does not hesitate to tell his 4,500 subscribers when to dump one portfolio and get into another.

On Oct. 1, Mr. Hooper switched his so-called sector portfolio out of Fidelity Select precious metals fund and into the Select technology fund. His diversified equity portfolio has been solely invested in the Fidelity Europe fund since mid-September.

Ma. Ballantine, whose Margo's Market Monitor came out on top in Hubert's ranking of 18-month

performance ending June 30, views her major mission as helping investors overcome their inertia when opportunities arise.

For some investors, "it's hard to switch," she says. Her sector fund portfolio has been idling in a Fidelity money-market fund since April after cashing in its gains.

For the Fidelity funds that specialize in only a few equity issues, a newsletter's recommendation of a major switch can cause havoc. Fund managers have to sell shares in the portfolio to redeem fund holdings, which in turn depresses the prices of the issues sold and the fund's net asset value.

To avoid surprises for its portfolio managers, Fidelity has tried to develop what a spokesman called a "close and cooperative relationship" with some of the more widely followed newsletters that rely on switching strategies. The message to editors is that a little advance warning would be appreciated.

"If they work closely with us, it's good for the letters, their readers, and nothing untoward happens to the shareholders who may be affected," says the Fidelity spokesman.

In the meantime, the Fidelity faithful who actively switch among the funds will be encountering stiffer fees.

For example, investors in the 30 or so Fidelity Select Portfolio funds are currently allowed five exchanges per month among the funds and charged \$10 for each transaction. After Dec. 1, the fee will be \$25. (Exchanges out of the money market fund remain free.)

Faced with these new policies, some newsletter editors who had

Joan Westreich



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The key Swiss bank

Margo Ballantine writes her bi-weekly fund advisory letter from Lexington, Massachusetts.

FOCUS

Funds Debate Incentive Pay

Continued from page 7

the effects on funds of favorable or adverse market conditions.

In some diversified firms, the issue is sometimes one of how bonuses are allocated. A case in point was the decision this August of seven members of the international asset-management team at N.M. Rothschild & Sons, the London merchant bank. The resignations included James

Heyworth-Dunn, the chief operating officer and director of Rothschild International Asset Management.

Among the team's complaints was said to be Rothschild's profit-sharing arrangement. The plan was pegged to the broader performance of the merchant bank, rather than rewarding the asset-management team on the basis of its contribution to the bottom line.

Mr. Heyworth-Dunn and other members of the former Rothschild team have started an investment

boutique in London named HD International, which will offer fund-management services exclusively. To Richard Chandler, one of the principals of the new firm and a former director at Rothschild International Asset Management, the prospect of having a direct interest in the firm is alluring.

"It is obviously exciting to be in a place where you have a stake in your own success," he says. □

Marybeth Nibley

Lima Zürich SBV 1486/2

Funds: Balancing Risk, Reward

By John C. Boland

FOR INVESTORS eager to put money into the U.S. stock market but skeptical of their ability to pick good stocks, most brokers, advisers and financial columnists in recent years have advised buying a mutual fund, particularly one with a superior long-term track record.

Often, the broker or adviser has just such a fund at hand, which may be managed in-house or carry a generous sales commission. Disinterested advisers usually add the words "no load," or no sales charge, to the list of characteristics that make a fund attractive.

Even then, the investor's job is daunting. Selecting a mutual fund involves many decisions similar to those faced in choosing an individual stock. Mutual funds are, after all, simply companies whose business is investing money for others. Management skill, business outlook and historic performance, while important, are no more invaluable as guides to a fund's future as to a manufacturing company's future.

The attraction of mutual funds is that they provide a ready-made diversified portfolio. This insulates an investor from much of the risk and reward of investing in individual stocks. But skeptics of the industry offer caveats.

Over time, mutual funds as a group tend to reflect the performance of the broad market. Thus, even with a fund with a superior five-year or 10-year record can lose money for investors in a bear market. By some reckoning, the funds could be especially vulnerable in a bear market if shareholder redemptions forced the managers to dump stocks.

One way to control risk is by using the mutual fund as part of a portfolio, with other assets in such alternatives as money-market funds, says Robert Kinsman, who edits the Low-Risk Growth Letter in San Rafael, California.

He says an investor can adjust market risk by shifting the amount of equity funds and cash held. Success, though, requires skill in recognizing when the market contains high or low risk—an art that regularly eludes fund managers and other professionals.

In picking an equity fund, Mr. Kinsman looks to the track record and volatility relative to the market. Recently, he recommended the Manhattan Fund, with \$528 million in assets at midyear, which has gained 280 percent in five years through June 30. That period, which dates roughly from the start of the bull market, saw the Standard & Poor's 500-stock index rise 242 percent.

The Manhattan Fund's performance ranked it 15th nationally for the five years, according to Lipper Analytical Services. While some specialized funds did far better—the Merrill Lynch Pacific Fund topped the field with a 486 percent gain—Mr. Kinsman and other advisers are wary of such funds.

Gold stock funds performed spectacularly well in the late 1970s, says Joe Mansueto, president of Mutual Fund Values, a Chicago service that rates mutual funds. "But when inflation subsided, they had some rough years," he says.

Investors must also look beyond

five- and 10-year track records, Mr. Mansueto says, to see whether the performance is consistent. The American Capital Pace Fund, for example, ranked fifth on Lipper's roster of top performers in the 10 years to June 30, with a gain of 1,022 percent. But, Mr. Mansueto says: "Most of that came from the early years; since then, they've had a change of fund manager." In the last 12 months, the \$3 billion fund substantially lagged behind the overall market.

Mr. Kinsman gives the no-load

Manhattan Fund high marks for

consistency. "It has been a very

good performer for the risk that it takes," he says. Steady gains also

characterized these funds:

• The Sequoia Fund, an \$800

million no-load fund, its results in

the last five years have not been

spectacular—up 220 percent or

about 20 points behind the S&P

500. The fund is closed to new

money—a shame," Mr. Mansueto

says. "It's my favorite fund," he says.

• Mutual Shares, with \$1.9 bil-

lion under management at mid-

year. This no-load fund is also

closed to new accounts. In the five

years through June, the fund's val-

ue grew 235 percent. "They do a

lot of distress situation investing,"

Mr. Mansueto says. "They tend to

buy after all the bad news is out. If

you get enough of these in a port-

folio, it turns out to be a very low-

risk way of investing."

Other diversified funds with

steady, long-term performances

include the low-load Fidelity Mi-

gellan Fund, an \$11 billion levi-

than that is up 376 percent in the

last five years, and the \$6 billion

no-load Windsor Fund, up 279

percent, which is closed to new

investors.

Still, the big question is whether

these funds would win laurels in a

weak market. William E. Dono-

gue, president of Donehue's Money Letter, is doubtful that any

fund can weather all seasons.

"People look at track records a

lot," he says. "I ask them, 'Can

you buy the fund five years ago?'

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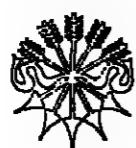
BY NEXT spring, if the staff of the Securities and Exchange Commission has its way, investors in U.S. mutual funds should be able to pick up a fund's prospectus and better understand how sales charges, redemption costs and other expenses can affect a fund's performance over a period of time.

Any sales fees, or "loads" as they are known in the industry, levied on reinvested dividends would not be listed, however. Instead, the SEC's proposal requires that those funds engaged in "double dipping" must explain in a narrative following the table that these charges are not included.

Although current regulations require that all fees be spelled out in a fund's prospectus, they typically are scattered throughout the document, making the task of computing costs and comparing the advantages of various funds a complicated matter.

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ROTHSCHILD ASSET MANAGEMENT

The Growing German Appetite for Funds

Income-seeking elders and well-off offspring both buy.

By Gail Schares

FUND MANAGERS in West Germany are still shaking their heads in disbelief. Over night, German investors seem to have developed an uncharacteristically large appetite for funds.

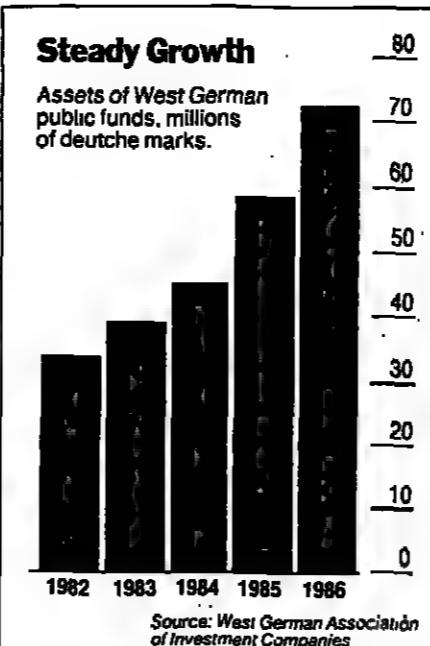
"We've never seen growth like this before," says Hans-Dieter auf der Springer, head of ADIG, West Germany's second largest investment fund, and a 30-year industry veteran. ADIG's funds have swelled by 2.5 billion Deutsche marks in the first eight months of 1987.

This year "will be the best growth year in our history," says Wolfgang Deml, president of Frankfurt-based Union Investment Gesellschaft, West Germany's fourth-largest investment company and manager of the country's largest stock fund, Uni-fonds.

The surge of interest in funds does not signal any sudden shift away from the average German's conservative, risk-averse approach to investment, say industry observers. Buyers of fund shares are still thinking like long-term savers, with much of the money going into bond funds. And German fund holdings still lag behind the levels in Britain, France and Italy.

Still, even marginal changes in attitudes can have a big effect. During the first seven months of 1987, 9.8 billion marks flowed into the more than 160 investment funds, 30 percent over the same period in 1986, according to the Association of West German Investment Companies. That surge comes after 21-percent growth in 1986.

To provide an adequate living for an aging population,

Steady Growth
Assets of West German public funds, millions of deutsche marks.

Source: West German Association of Investment Companies

Scrambling to satisfy the demand, money managers have submitted applications this year to create more than 200 funds for both private and institutional investors.

Demographic forces seem to be playing a role. With a shift toward an aging population in West Germany and growing concern about the financial soundness of the social security system, Germans are moving assets from low-interest savings accounts, which earn between 2.5 percent and 3.5 percent, to investment funds to build up supplemental retirement income.

"There's a gap in the ability of the pension system to provide an adequate living for an aging population," Mr. auf der Springer says. "Investment has

become an essential element of long-term planning for each individual's retirement security."

Taking advantage of this trend, insurance companies have started aggressively marketing mutual funds — primarily bond funds — to customers when their life insurance policies mature. Insurance companies currently account for 20 percent of investment fund sales.

Understandably, fund managers are eager to set up partnerships with insurance companies. Insurance giant Allianz, which established its own investment company five years ago, boasts bond funds totaling over 1.1 billion marks.

West Germany's traditionally high savings rate bodes well for the fund industry. Based on the nation's savings rate, which stands at about 14 percent, West Germans are expected to put aside between 160 billion marks and 170 billion marks in 1987.

More important, the percentage of savings flowing into investment funds is on the rise. In 1986, 7.8 percent of private savings flowed into investment funds, up from 5.3 percent in 1985, according to the investment company association.

Finally, the investment industry is also benefiting from a new generation of prosperous and investment-conscious West Germans. "There is an incredible level of liquidity here," says Mr. Deml. "This is the first generation since the end of the war that has inherited any wealth."

Unlike many other European countries, West Germany has passed no laws granting tax benefits to encourage private investment. West German funds, however, can buy and sell shares without paying the stock market turnover tax of 0.5 percent, which investors would pay if they bought and sold the stock themselves. Sales charges for public investment funds in West Germany range from 30 marks to 150 marks, while the management fees average 5 percent.

Bond funds represent about two-thirds of the money in funds. "The risk is small and the returns (5.7 percent) are still good" by German standards, explains Ruediger Paesler, spokesman for the investment company association.

Of the 10 largest funds in West Germany, five are

international bond funds, three are domestic bond funds and two are funds that invest in real estate. International bond funds are currently more popular than domestic funds, due to their higher returns.

Stock funds, meanwhile, have shown a small positive influx of funds in 1987 after shrinking in 1986. Nearly 550 million marks flowed out of equity funds in 1986 as investors cashed in on gains from the bull market of 1985 and early 1986. Equity funds totaled 13.7 billion at the end of July.

"There's not much going on in the German stock market at the moment to encourage investment," Mr. Paesler says. Domestic equity funds showed returns ranging from 7.4 percent to 22.5 percent in 1986. While some international stock funds showed spectacular annual growth of 40 percent to 50 percent in 1986.

WHEN THEIR FUND shares soar, German investors have tended to take the money and run. "The funny thing is, when a fund has a good performance, it shrinks because everyone cashes out," notes Mr. Paesler.

Fund officials still despair over such conservatism. "People here view stock funds as speculative investing," says Michael Kindsvater, marketing director at Frankfurt-based DEKA Deutsche Kapitalanlagegesellschaft. "They look only at the risk and they don't see the opportunity."

With corporate profits expected to strengthen in 1988, however, stock funds may become more interesting to investors in the months ahead. Of the specialized stock funds, technology, energy and raw materials funds have become increasingly popular, particularly with the better-informed investors, says Erast Bracker, head of DWS Deutsche Gesellschaft für Wertpapiersparma.

DWS's raw materials fund posted a hefty gain of 48.9 percent during the 12 months ending June 31. DWS's energy fund showed a healthy increase of 21.1 percent.

"I'm confident stock funds will become more popular," ADIG's Mr. auf der Springer said. "You can see the investment thinking changing all over Europe."

Proposed Rule Changes Irk U.K. Fund Industry

By Marybeth Nibley

London

THE UNIT TRUST business in Britain is about to get a new watchdog after about five decades of being looked after by the Department of Trade and Industry. Understandably, the industry, in the midst of an unprecedented boom, is a bit nervous about what the incoming regulators have in store.

The Securities and Investment Board (SIB), which will take over responsibility for unit trusts in April, has already caused a stir with some draft regulations issued last month. While the public may regard some of the proposed rules as covering arcane matters, they would result in substantial changes in the way unit trusts are managed, advertised, bought and sold.

Among the proposed changes that would have the most impact on investors is a switch in the way unit trust shares are priced. Currently, unit trust shares are priced on what is called a historic basis. The net asset value of the shares at the end of the previous day is used to fix the price of a transaction.

The SIB proposals would put pricing on a forward basis, as is the case for mutual funds in the United States. Forward pricing means the price would be determined the next calculation after the order was placed rather than the previous one.

The rationale for forward pricing is to eliminate the opportunity for managers and speculators who closely follow the markets to profit at the expense of unit holders. Under the present system, in theory at least, someone who knows the market has risen during the day can benefit by buying units before their price reflects the change in the value of the underlying securities.

The drawback to forward pricing is that investors will not know an exact price when they place orders. But John Fairburn, deputy

chairman of M&G fund group, says that is not a very serious burden. He estimates that more than half his firm's customers buy units without knowing precise prices. They have a rough guide to prices from newspaper listings when they submit applications by mail, and they find out the price at which their order was transacted after applications have been processed.

But Mr. Fairburn finds the SIB's regulations that affect the "box" more worrisome.

The box is a pool of unit trust shares that managers maintain. By running a minor clearing system, managers have an inventory of units on hand to satisfy customer demand. Any profits or losses on the operation of managing this pool of shares accrue to the manager. For instance, if a manager buys back units from a customer and later resells them at a higher

price, the manager pockets the difference.

Management firms argue that there is nothing inherently wrong with making such profits. And, they say, by keeping a stock of units, a manager insulates holders from the impact of sales and redemptions.

Mr. Fairburn called the box "an essential buffer," but he adds, "The rules of box management should be tightened up."

On box management, the SIB would prohibit managers from selling units short. This means managers who expect a wave of investors cashing in their shares cannot sell units before they have been created by the trustees.

By selling these units before trustees have created them, the managers are able to raise the cash to pay off subscribers without resorting to the sale of the fund's securities holdings. Under the U.K. definition of unit trusts, only trustees can create or liquidate units.

The SIB's plan would not ban managers from building up holdings of units in anticipation of a rise in their value. In its draft, the board says prohibiting a manager from acting as a principal and trading on his own account and trading on his own account would represent a fundamental

change in the method of operating unit trusts, which has been the usual practice for decades."

Robin Dix, an SIB spokesman, notes that "members of the unsophisticated investing public would be surprised to learn that in addition to a fee, a manager is making a profit on the way he deals with the units." It has been estimated that as much as one-third of a manager's profit comes from dealings in his own account.

The SIB would further require managers to disclose how they set their prices for units. Formulas already exist to regulate the offer price, the maximum level at which the fund is selling units, and the bid price, the minimum buying price.

At times when units are most in demand by investors, the price manager's quote will be closer to the maximum offer price. If a majority of customers decide to sell units, the price basis will shift toward the minimum bid price.

So investors can tell what conditions are in effect, the draft rules suggest that prices listed in newspaper should be designated as offer-based, bid-based and an intermediate price between the two.

Some managers said this requirement is unnecessary since the newspaper listings will reflect past

prices, not the ones at which they will be making deals if the forward pricing method is adopted.

"Since the only publication of unit trust prices will be on a historical basis — one or two days later — we fail to understand the logic of indicating whether such prices are on a bid, offer, or intermediate basis," Bill Stratford, chairman of the Unit Trust Association, wrote in a news release.

"The information will effectively be useless to the investor, since it will give no indication as to the basis of the forward price at which he would have to buy or sell."

Another proposal would require that the initial sales charge on units be shown separately rather than included in the overall price. "This would bring units more into line with equities and also lead to greater transparency of charges," the SIB report explains.

The draft also calls for managers to stop rounding unit prices in a way that the board says creates a hidden charge. Under the regulations, prices would be rounded up or down to five significant figures and not by 1 percent, or 1.25 pence per unit, whichever is smaller.

SIB has given the industry until Nov. 2 to respond, a period that fund-management executives complain is insufficient.

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Genève 1988

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Genève 1988

New International Bond Issues

Compiled by Laurence Desvillettes

Issuer	Amount (millions)	Mat.	Coup. %	Price end week	Price end week	Terms
DATING RATE NOTES						
Deutsche Federal Savings & Loan Assn.	\$100	1992	% 100	99.80	Over 3-month Libor. Noncallable. Fees 0.22%. Denominations \$100,000. Collateralized by mortgage securities.	
DED-COUPON						
All Bank Int'l	\$200	1989	9% 101	99.38	Noncallable. Fees 1.1%.	
Izaka Prefecture	\$120	1994	10% 101 1/4	98.00	Noncallable. Fees 1.1%.	
Toyota Motor Finance (Netherlands)	\$150	1990	9% 101.18	99.78	Noncallable. Fees 1.1%.	
redit Lyonnais	£75	1992	10% 101% 101 1/4	98.88	Noncallable. Fees 1.1%.	
National Westminster	Aus\$70	1992	13% 101% 100.75	Noncallable. Fees 2%. Increased from Aus\$50 million.		
urchina	NZ\$50	1989	17% 101%	—	Noncallable. Fees 1.1%.	
QUITY-LINKED						
All Resources Financial Services	\$550	1997	open 100	98.00	Coupon indicated at 5% to 5%. Redeemable in 1993. Convertible into shares of the Broken Hill Pty at an expected 18 to 22% premium. Fees 2%. Terms to be set Oct. 16.	
Hodgestone	\$100	1992	open 100	100.50	Coupon indicated at 2.9%. Noncallable. Excl. \$5,000 note with one warrant exercisable into company's shares or an expected 2.9% premium. Fees 2%. Terms to be set Oct. 14.	
emon	\$300	1992	3% 100	100.00	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 1,333 yen per share and at 147.70 yen per dollar. Fees 2.5%.	
emon	\$200	1993	3% 100	97.00	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 1,333 yen per share and at 147.70 yen per dollar. Fees 2.5%.	
Kishio Paper Manufacturing	\$70	1992	3% 100	96.50	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares of 1,679 yen per share and at 148.05 yen per dollar. Fees 2.5%.	
oast Enterprises	\$50	2002	7 100	98.50	Noncallable. Convertible of 2.25% per share, a 21.3% premium. Fees 2.5%.	
iji Bank	\$200	2002	1% 100	—	Semiannual. Convertible at 1,400 yen per share and at 146.45 yen per dollar. Fees 2.5%.	
achi Maxell	\$70	2003	open 100	101.25	Semiannual coupon indicated at 1%. Callable at 103 in 1992. Convertible at an expected 2% premium. Fees 2.5%. Terms to be set Oct. 13.	
AO	\$100	1992	3% 100	98.00	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 2,194 yen per share and at 146.45 yen per dollar. Fees 2.5%.	
orsten Company	\$50	1992	open 100	98.13	Coupon indicated at 2.25%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2.25% premium. Fees 2.5%. Terms to be set Oct. 14.	
Tayloratsu	\$70	1992	3% 100	97.00	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2.25% premium. Fees 2.5%. Terms to be set Oct. 14.	
ippon Paint	\$70	1992	3% 100	98.50	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares of 677 yen per share and at 147.55 yen per dollar. Fees 2.5%.	
fishin Oil Mills	\$70	1992	open 100	97.75	Coupon indicated at 3.25%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2.25% premium. Fees 2.5%. Terms to be set Oct. 15.	
nnocle West Capital	\$75	2002	open 100	98.75	Coupon indicated at 10 to 10%. Callable at 103 in 1990. Convertible into Arizona Public Services Co. shares at an expected 10 to 13% premium. Fees 2.5%. Terms to be set Oct. 14.	
oden Trading Company	\$30	1992	3% 100	—	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares of 708 yen per share and at 148.05 yen per dollar. Fees 2.5%.	
aino Transportation	\$70	1992	open 100	97.50	Coupon indicated at 3.25%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2.25% premium. Fees 2.5%. Terms to be set Oct. 12.	
enko	\$40	1992	3% 100	—	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares of 641 yen per share and at 148.05 yen per dollar. Fees 2.5%.	
oko-Q	\$100	1992	open 100	97.00	Coupon indicated at 3.25%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2.25% premium. Fees 2.5%. Terms to be set Oct. 13.	
osah	\$200	1992	3% 100	97.75	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares of 759 yen per share and at 146.45 yen per dollar. Fees 2.5%.	
rnova	\$100	2002	6 100	—	Callable in 1990. Convertible at 83.25, a 21.3% premium. Fees 2.5%.	
ndt & Spruengli Finance	DM 100	1994	3% 100	104.00	Each \$2,000-mark note with 12 five-year warrants exercisable into 11% parent company's participation certificates of 2,600 Swiss francs per certificate, a 2.7% premium. Fees 2.5%.	
odick	DM 50	1993	1% 100	106.00	Semiannual. Convertible of 2,221 yen per share and at 80.80 yen per mark.	
ll Resources Financial Services	£50	1997	open 100	101.00	Coupon indicated at 4% to 5%. Redeemable in 1992. Convertible into shares of the Broken Hill Pty at an expected 18 to 22% premium. Fees 2.5%. Terms to be set Oct. 14.	
Ayne Nicless Finance	£40	1994	open 100	99.50	Coupon indicated at 4% to 7%. Callable at 101 in 1992. Convertible at an expected 10 to 15% premium. Fees 2.5%. Terms to be set Oct. 15.	
ell Resources Financial Services	Aus\$200	1997	open 100	100.13	Coupon indicated at 7% to 8%. Redeemable in 1992. Convertible into shares of the Broken Hill Pty at an expected 18 to 22% premium. Fees 2.5%. Terms to be set Oct. 14.	

EUROBONDS: Frankfurt Frenzy Caps a Bad Week

Continued from first finance page)

which was reported to have purchased \$300 million DM of bonds in an effort to stabilize the market.

Nevertheless, prices were down a average 1% points, or 15 DM or 1,000 DM bond — a big drop in a market where daily prices normally move not more than 1/4 point. The price drop pushed yields on one-year paper up 30 basis points, about one-third of a percentage point, to 5.15 percent. Yields on five-year paper rose 1/4 point to 6.25 percent; seven-year yields rose 30 basis points to 6.9 percent and 10-year paper yielded 7.10 percent, a gain of 17 basis points.

The yield on the U.S. Treasury's 30-year bond hit a 22-month high on Friday of 9.91 percent, up from 9.87 percent on Thursday. With the yield now within touching distance of the 10 percent level, traders now question whether that will be enough to trigger a rally in the bond market or whether investors will hold back, waiting to see if the top in the current spiral takes the yield over 10 percent.

With fixed-coupon investments out of favor everywhere, an attempt was made last week to reopen the floating-rate sector of the Eurobond market with a \$100 million, five-year issue from Fidelity Federal Savings & Loan Association. The paper is collateralized, giving the issue a triple-A rating. However, even the coupon of 4% point over Libor failed to excite investors who have been disillusioned about the ability to trade FRNs.

The relatively small issue was placed. But underwriters said it is clear that there is no substantial demand for FRNs which formerly were the favored haven in a period of rising interest rates.

As in previous weeks, the bulk of the new issue activity was confined to equity-linked paper. And again, this was dominated by Japanese companies. Names such as Bridgestone, Canon and Hitachi Maxell attracted some international attention, while the bulk of the paper was sold to investors in Japan.

The DM equity bond from Lindt met a solid success, but the three-part convertible from Bell Resources had a mixed reception: Its \$550 million issue was deemed too large while the companion £50 million and 200 million Australian dollar issues ended the week trading at modest gains over the offering price.

Although all the models will have the same basic structure, GM officials are counting on them to put an end to its lookalike-car problem.

"The exterior, the instrument panel, the seats, everything the customer sees is different," Mr. Schmidt said. "The only thing they

have in common on the outside is the windshield."

GM officials say the cannibalization was the unanticipated result of devoting a disproportionate amount of their advertising budget to the new models while cutting back on promoting older lines.

"We'll have more balanced marketing support this year," said Thomas Staudt, Chevrolet's marketing manager. "The real test will come in 1988."

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In the jargon, this is called mismatching — with banks lending at the six-month rate but funding themselves at the overnight rate. Any lender can do that, but it is a dangerous gambit. If overnight rates suddenly rise, lenders could find their own cost of funds higher than the six-month rate they have locked into.

The formula developed by IBJ Schröder Bank protects lenders against such a development. In any six-month period, the borrower can choose as the base rate either the rate for 90-day certificates of deposit adjusted for reserve requirements, plus 24

basis points, or six-month Libor flat, with no margin.

The chosen base rate is then adjusted on a daily basis, allowing lenders to use overnight funds to finance their commitment.

At present, for example, six-month Libor is 9 percent but the cost of overnight money is 7½ percent. That would give lenders an effective margin of 1½ points over their borrowing costs — a margin higher than even the South American debtors currently pay — while the cost to China is only Libor.

Some \$500 million was raised in syndication and the size of the loan was increased from the initial target of \$150 million.

In syndication is a \$75 million, 10-year loan for the Development Fund of Iceland, which raises funds for lending to industrial and regional development projects. The state-guaranteed borrower is paying 17½ basis points over Libor during the first six years and 22½ basis points over Libor in the final four years.

The loan can be drawn over a six-month period and thereafter there is a commitment fee of 6½ basis points on undrawn balances. Front-end fees range up to 10

Salomon Said to Weigh Closing Municipalities Unit

By Robert J. Cole
New York Times Service

NEW YORK — Faced with exceptionally stiff competition from leading New York banks, Salomon Inc. is seriously considering closing its municipal bond operations. Wall Street executives have said.

Salomon is one of the top five bond firms in the United States, with its municipal operations among the country's most prestigious. According to insiders, the department is not very profitable, however, because the banks offer the same service for much less money.

Compounding the problem, according to executives close to the company, Salomon sustained huge municipal bond trading losses earlier this year when it failed to spot a rise in interest rates. Salomon does not make such information public, but it is thought to have lost \$30 million to \$100 million, or enough to have crippled a lesser firm severely. The thin margins available even in the best of times, however, have now become a serious concern.

The sources, speaking on Friday, said that if the bond department were to be closed, it would be part of an overall cutback at Salo-

mon that could affect hundreds of jobs at the big Wall Street firm.

No decision has been made about which employees or departments would be affected. But the staff cuts, part of what Salomon is calling a strategic review, are understood to have been discussed extensively by senior executives in the last few days.

The discussions have touched off a flurry of rumors that Salomon has repeatedly fought off by arguing that the review was still underway. In a few cases, Salomon has denied rumors about specific individuals.

Robert S. Salomon Jr., a managing director, called the bond department "spectacular." He also denied persistent rumors spreading through the firm itself that Gedale B. Horowitz, Salomon's municipal bond expert, who played a behind-the-scenes role in helping save New York City from bankruptcy in the 1970s, might be asked to step down. Mr. Horowitz, one of Salomon's highest-paid executives, made \$2.34 million last year.

One insider noted that last year Salomon added 40 percent to its personnel — now more than 7,000 people — and that no organization can grow 40 percent in one year

and not have some unnecessary people." Another said: "Certainly, a 10 percent cut has been actively discussed, and some people at Salomon think it ought to be more." A 10 percent reduction could involve as many as 700 people.

People close to Salomon maintained that the firm was profitable, but that "it's very big now and its return on capital is inadequate."

One executive, looking at figures released by the Value Line Investment Survey, noted that Salomon's estimated net worth this year stood at an astounding \$3.8 billion but that Salomon got only an 11 percent return on the money, which, he said, was "not enough."

According to several key people familiar with Salomon's problems, the firm's weak areas are commercial paper, often called corporate IOUs; municipal finance, and mortgage-backed securities.

Acting on the theory, as one insider put it, that "it's more productive to get out that to shrink" the business, Salomon is understood to be considering closing its commercial paper department and its municipal department and to be thinking of keeping or shrinking the mortgage-backed operations.

Aide Denies Baker Seeks A New Gold Standard

By Hobart Rowen
Washington Post Service

WASHINGTON — Treasury Secretary James A. Baker III, who caused a stir in the financial world by suggesting that gold prices be included among key indicators used to coordinate currency exchange rates, had no intention of triggering a move to a gold standard, according to a Reagan administration official.

The official, speaking Friday on condition of anonymity, said Mr. Baker's aim in his speech Sept. 30 in Washington was only to suggest that a commodities basket, including gold, be added "as an analytical tool" in the economic coordinator process being evolved by the Group of Seven industrial nations. The speech was made at the annual meeting of the International Monetary Fund and World Bank.

But the official acknowledged that there could be an "intermediate step" between using the commodities basket, including gold, as an information guide for exchange rate purposes and returning to a gold standard. The middle ground would be linking monetary policy to a commodities price indicator, of which gold would be a small part.

The official added that there was no agreement yet among the G-7 countries — United States, Japan, West Germany, France, England, Italy and Canada — on using a commodities index or how such an index might be constructed; for example, what weight gold would have in it.

Mr. Baker has refused to elaborate on his suggestion. But in an interview Friday, he added that "politics had nothing to do with it." Some conservative U.S. politicians favor a gold-based money system.

NASDAQ National Market

OTC Consolidated trading for week ended Friday, Oct. 9

	Sales in 100s	High	Low	Close	Net Chg.		Sales in 100s	High	Low	Close	Net Chg.		Sales in 100s	High	Low	Close	Net Chg.		Sales in 100s	High	Low	Close	Net Chg.			
AEBW Bd	1020	156	146	146	+1		AIQ	72	124	124	-1		Bodder	72	11	10	10	-1		Chambers	748	10	9	9	-1	
ABE	10	44	11	11	-1		AIQ	154	194	194	+2		Bodder	143	14	13	13	-1		Comcast	214	12	11	11	-1	
ABC Co	292	292	282	282	-1		AIQ	154	194	194	+2		Bodder	150	29	28	28	-1		Coverco	215	12	11	11	-1	
ADC	2,5	24	12	12	-1		AIQ	22	22	22	-1		Bodder	150	29	28	28	-1		Creator	215	12	11	11	-1	
AEC	10,25	124	124	124	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
AEP	12	12	11	11	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
AIA Tel	1,23	23	19	19	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
ALC E	1,204	39	3	3	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
AST	720	149	149	149	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
AWA	1043	1043	1043	1043	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
America	36	13	11	11	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
ATMTR	10	9	8	8	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
AberLinc	327	247	247	247	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Accel	2,31	21	19	19	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Accidin	245	205	205	205	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Aciprin	147	10	10	10	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Acote	284	124	124	124	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Acwest	478	149	149	149	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Aciven	125	25	25	25	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Acitell	5174	252	252	252	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adelco	125	25	25	25	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adelclb	535	216	216	216	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adem	1,10	1	1	1	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Ademco	458	19	19	19	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adenv	704	242	242	242	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adgen	2,04	304	304	304	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adgen	87	12	12	12	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adikav	246	104	104	104	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adim	481	196	196	196	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adirev	1,07	24	24	24	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adisys	1,07	24	24	24	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adisys	1,07	24	24	24	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adisys	1,07	24	24	24	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
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Adisys	1,07	24	24	24	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adisys	1,07	24	24	24	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adisys	1,07	24	24	24	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
Adisys	1,07	24	24	24	-1		AIQ	24	24	24	-1		Bodder	150	29	28	28	-1		Crestco	215	12	11	11	-1	
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NASDAQ National Market

OTC Consolidated trading for week ended Friday.

Louis Malle Looks Into the Shameful Past

International Herald Tribune
PARIS — Exactly 30 years ago Louis Malle, who was 30 years old going on 25, made his first feature film, "Ascenseur pour l'échafaud." It won the Louis Delluc prize and was a taut suspense film, remarkably cool and elegant — traits common to Malle's later work and due in part to a natural reserve that distances him from his subject and view.

MARY BLUME

ers (his first film was also notably cool because he had never worked with actors, his only previous experience having been as co-director of Jacques-Yves Cousteau's "Le Monde du silence" with fish). It has taken 30 years to shatter Malle's composure and he did it to himself by choosing to make "Au revoir les enfants," an autobiographical film set in Occupied France which has won the Venice festival Golden Lion and unusually warm praise from Paris critics. The weekly magazine Le Point called it "a masterpiece of simplicity" and the Journal du Dimanche simply said, "It will overwhelm you."

"I am," Malle says, "all shaken up." "Au revoir les enfants" is Malle's 16th feature film and it is, he says, the film he should have made long ago but couldn't. "It felt sometimes like I was making my first film."

In 1944 Malle was at a boarding school near Fontainebleau for boys who were, like himself, of the upper middle class. "It was like an English public school," he says, "except it was run by priests." Although the other boys didn't know it, three of the students were Jewish refugees whom the priests were hiding and one winter day the Gestapo took away the three boys and the headmaster, Father Jean, all of whom died in German camps. The title comes from Father Jean's last words to the stunned children lined up in the icy courtyard to see the pathetic group taken away: "Au revoir les enfants."

The story centers on the friendship between Julien (the young Malle) and the mysterious newcomer known as Boumet. It is a story that other French people lived through in the Occupation and Malle stresses its ordinariness, even shrewdly using the usual clichés about the Occupation to give a very intimate film a bigger scale. The German officers are, as stereotype demands, "correct," the insouciant greed of black market trafficking conceals a greater corruption, and Boumet excels at music and math as Jews are supposed to.

"I wondered about using that stereo-



Director Malle: "It's taken me a long time, 30 years, to deal with the essential, which is my childhood."

type for a long time but I think I had to be honest with my memory and he was really like that, maybe because of what had happened to him. He was ahead of us," Malle says. Boumet became a symbol for the questions Julien/Malle was obliged to ask himself: "What is it to be Jewish and why him and not us? The fact that this child is so giddy makes it more shocking in a way."

The questions that Julien/Malle asked and the shock of the experience led to his becoming a filmmaker, he says. It was a means of questioning and trying to understand life. As a director he is especially good with children and adolescents in a marginal world and as a director he often turns from feature films to documentaries on subjects he wants to learn more about (his latest documentary, made for American television, is on the new generation of American immigrants — "the very last wave," he says, "not the

Irish or the Germans or the Swedes, but Pakistanis and Nigerians and Koreans").

In 1964, around the time when Malle was preparing "Viva Maria" with Jeanne Moreau and Brigitte Bardot, Boumet's sister, the only survivor of the family, wrote to suggest that Malle make a film on his childhood experience, a suggestion he couldn't handle at all. Twenty years later, in a small Texas port to make "Alamo Bay," a very strong film about Klan persecution of newly-arrived Vietnamese fishermen, Malle felt so removed from any sort of life he knew that he began to think about his past and started making notes for the film.

He found himself writing the script very quickly in August 1986 when he was spending the summer at his house in the Lot with his wife and children. His wife, Candice Bergen, read the first draft and told him to drop everything and make the film.

He did, having raised funds from French and German backers. "I moved

very fast, trying to keep the momentum. I didn't try to reconstruct exactly what had happened to him. It was close, so this trip into a very painful moment in my childhood was not easy. It was more than 40 years ago but it was very close in many ways, so I had to open up and talk about who I was, where I came from, my mother, my background, my fears as a child, emotions. You don't do that easily."

Boumet, he says, has been with him since 1944. "And he's with me a lot now because it seems he is going to come into the consciousness of a lot of people. It is as if I am transmitting this memory to a lot of people, which is a good reason to have done it."

The release of the film is opportune in view of the Klaus Barbie trial last spring and the recent utterances of National Front leader Jean-Marie Le Pen about extermination camps being a small detail of history, but Malle says the Barbie trial had nothing to do with his decision to film since, like many French people, he

never thought the trial would finally occur. But like the Barbie trial, the film is an attempt to teach memory.

"For me it's a way of fixing this moment in my past so I can transmit it and it doesn't die with me," Malle says. "He dedicated the film to his children: 'Passing on these memories is the most important thing I could give them.'

The film has had such a warm and sentimental reception in Paris that what spurs of criticism there have been might be considered churlish. Malle thinks it is probably his best film, with the paroxysm that such a thought implies. He finds it impossible to go on with a project he was working on before "Au revoir les enfants," a comedy about American expatriates in Europe with a script by John Guare.

"What I'd really like to do is take some time off now. It's taken me a long time, 30 years, to deal with the essential, which is my childhood although I did it a little bit in 'Le Souffle un coeur.' I suppose it's the beginning of a whole new opus which would be really a sort of Proustian exploration of my past, but some days I think I want to go again and follow my curiosity about things happening today and close this chapter. So it's a very strange situation. I am aware of the fact that this film is deeper than anything I have done so far, but maybe this is the one and only."

In the past, Malle's sleek films have troubled French critics who have compared him to everyone from Percy Bysshe Shelley to the reverend director of Jerry Lewis. Frank Tashlin, who but have been unable to find a connecting link in his oeuvre. "The link," Malle liked to say, "is myself."

But it is a self well-concealed. Now the dandy has dropped his mask and after the first sting seems to like the fresh air. French critics, thrilled that he is back after 10 years of working in the United States, have welcomed him like a prodigal son. "Au revoir les enfants" was a huge impact, which I was hoping for but not necessarily expecting. There were so many traps, so many ways it could miss, but it seems to have come out strong and moving and so now they say he is back, back to his roots, back to his language."

The welcome back is certainly sincere but Malle says that it is far from certain that the French will send "Au revoir les enfants" as their competition entry for the Best Foreign Film category of the 1988 Academy Awards. However as a co-production, the film, if the French don't want it, compete under the German flag. "It's entirely possible," Malle says with the slightest hint of his old ironic smile.

LANGUAGE The 'Murder Board' Case

By William Safire

WASHINGTON — "Bork" — Bush's "Murder Boards" and "Prepped Alone" was the headline in *Legal Times*. Before the Senate hearings into the confirmation of Judge Robert H. Bork began, according to the Washington weekly for lawyers, the White House held a session with the president's nominees to the Supreme Court to help him anticipate likely questions. "He did one *moot court* over at the White House," a Bork friend was quoted as saying, "but after that he canceled all the rest."

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1982, The Economist of London used the Pentagon term in a more specific reference: "A so-called 'murder board' was set up to test Air Force witnesses with hostile questions they might encounter from committee members." Although the military continues to use the phrase to cover all tough-minded review boards, civilian have narrowed its use to the no-holds-barred preparation of wilyness for hearings or of politicians for press conferences.

We are indebted to the defense community for another colorful phrase, recorded first by the Harvard Business Review in 1976: "Lockheed Aircraft Corporation's 'skunk works' is an example of this kind of highly productive approach... Before a dollar is spent, a skunk-works staff is indoctrinated to ask 'Will it contribute to short-range profit?' A year later, Newsweek wrote that the U2 aircraft of the 1950s had been 'fashioned by ace designer Clarence (Kelly) Johnson at Lockheed Aircraft's California 'skunk works.'"

The Jet Propulsion Laboratory went a step further and dubbed a special office "the planetary sketchworks." The phrase was picked up by the author Thomas J. Peters in his best seller, "In Search of Excellence" as a technique shared by innovative companies in which small groups are encouraged to break out of established norms, habits, to come up with new technologies, marketing strategies, or products.

At the Random House Dictionary, lexicographers took note. Hence, in the new Random House Unabridged, the informal sketchwork is defined as "an often secret experimental division, laboratory, project, or the like, for producing innovative designs or products, as in the computer or aerospace field."

The etymology is clear: after Big Barnsell's "Sketch Works," where the illicit liquor Kickapoo Joy Juice was made, in Al Capone's gangster days, as an "intervening scrub-down or murder board of the planning product."

"Scrub-down" did not make it outside the naval bureaucracy, perhaps because of its closeness to "shakedown," but more likely because "murder board" was more colorful. In

New York Times Service

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